

AFRICAN DEVELOPMENT FUND

ADF/ZF/MTR-ADF-V/90/02/SR/Rev.1

ADF-VI/CM.1/90/01/SR/Rev.1

31 October 1990

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**REVISED SUMMARY RECORDS OF THE ADF-V
MID-TERM REVIEW AND THE FIRST CONSULTATIVE MEETING
ON THE SIXTH REPLENISHMENT OF THE ADF RESOURCES**

Abidjan, 1-2 June 1990

**RECORDS OF THE ADF-V MID-TERM
REVIEW AND THE FIRST CONSULTATIVE MEETING ON
THE SIXTH GENERAL REPLENISHMENT OF RESOURCES**
held at Hotel Ivoire on 1 and 2 June 1990

A. PRESENT**CO-ORDINATOR**: **Mr. Ian BUIST****HEADS OF DELEGATION**

1.	Argentina	:	Mr. RIVOLTA MARTIN
2.	Austria		Mr. LUST HERBET
3.	Belgium		Mr. ARNOLDI JEAN PIERRE
4.	Brazil		Mr. TEIXEIRA JOAO MARCELO
5.	Canada		Mrs. McASKIE CAROLYN
6.	China		Mr. WANG ZHENMING
7.	Denmark		Mr. LILHOLT STEN
8.	Finland		Mrs. KORHONEN ANNA LIISA
9.	France		Mrs. DEGUEN NATHALIE
10.	Federal Republic of Germany		Mr. WETZEL HORST
11.	India		Mr. KUMAR SUDHIR
12.	Italy		Mr. SACCO GIOVANNI
13.	Japan		Mr. MIYAMURA SATORU
14.	Korea		Mr. KIM EUI-SOO
15.	Kuwait		Mr. AL-WAQAYAN HISHAM
16.	Netherlands		Mr. KELLER RONALD
17.	Norway		Mr. HALVORSEN KJELL
18.	Portugal		Mr. MONTALVAO GRACA
19.	Saudi Arabia		Mr. AL-MOFLEH IBRAHIM
20.	Spain		Mr. LAISECA VALENTIN
21.	Switzerland		Mr. CART HENRI-PHILIPPE
22.	Sweden		Mr. THORNQUIST LARS
23.	United Kingdom		Mr. POWER MICHAEL
24.	United States of America		Mr. FOLSON GEORGE
25.	Yugoslavia		Mr. OSTOJIC DANICA

B. AGENDA ITEMS CONSIDERED DURING THE MEETING

1. - Adoption of the agenda and organization of work
2. - Opening statement by the Management of the Fund
3. - Consideration of Mid-Term Review Report : ADF-V - ADF/ZF/MTR-ADF/V/90/02
4. - Consideration of A Proposal for the Sixth Replenishment of Resources - ADF-VI/CM/90/01
5. - Other Business.

OPENING STATEMENT BY THE ADB PRESIDENT

1. The **CO-ORDINATOR** welcomed the Deputies to the ADF-V MTR and the ADF-VI meetings and said he was counting on them for the success of the discussions.
2. He requested the Secretariat to prepare one single summary record for the two meetings.
3. He called on the President of the Bank, who kindly agreed to participate in the opening ceremony of the Conference, to deliver his statement.
4. In his opening statement, the President of the Bank stressed that consultations on the Fifth Replenishment were undertaken in recognition of the Fund's evolution as an increasingly significant source of concessional finance in the region; and, perhaps more so, because of the concern of State Participants about the continuing economic crisis in Africa.
5. He explained that since the submission of the previous report to Deputies, the Ad Hoc Committee of the Board of Governors of the Bank had had the opportunity to undertake a mid-term review on Bank operations under GCI-IV and many of the conclusions and recommendations of their final report applied as much to the Fund as to the Bank.
6. After the conclusion of the GCI-IV meetings, Management had begun to take action in several areas such as lending operations, finance, and administration. In general, a programme and timetable for all the recommendations and conclusions on the GCI-IV mid-term review had been developed.
7. The **PRESIDENT** then laid emphasis on the economic crisis that had been ravaging most of the continent and the severe hardships inflicted on the welfare of African society and especially those in low-income countries in which over 87% of GDP had gone to consumption.
8. There was need, therefore, for debt alleviation so that resources that were being transferred abroad to meet debt servicing obligations could be minimized and redirected to investment and other productive activities.
9. African countries should, for their part press on with the implementation of reform and adjustment programmes to improve the performance and efficiency of their economies. They should also adopt policies and practices which would alleviate poverty, protect the environment and enhance economic integration.

10. He called on the Fund to resolutely tackle those issues so as to help to assure more promising economic conditions in low-income Africa.

11. He observed that the world was currently witnessing major transformations in social and political systems and that Africa entertained legitimate hopes about the long-term consequences. For the short-term, however, there was an anxiety that the donors, on account of their focus on developments in Eastern Europe, would eclipse the continent's requirements for external resources. Africa, therefore, looked forward to the continuing support of ADF to preserve its interests and meet the needs of African countries.

12. The PRESIDENT then thanked Mr. BUIST for accepting, after a brilliant career in the administration of his country, to co-ordinate the deliberations of the meeting.

13. He explained that the choice was motivated by the desire not so much to take advantage of his presence to compel State Participants to provide the highest volume of replenishment, as to benefit from his competence and willingness to assist the Bank and the Fund so as to strengthen their foundations and place them on a healthy base.

14. In conclusion, he stressed that the African Development Bank counted on the goodwill of all Deputies in order that the results obtained should be in the best interests of the African populations, the ultimate beneficiaries of the resources to be mobilized.

15. The CO-ORDINATOR confirmed that the position of State Participants on the future of ADF was also to place the Bank's future lending operations on a sound footing and to give maximum assistance to the most needy countries in Africa.

16. He stated that the negotiations embarked upon were taking place at a critical period in the history of Africa and the African Development Fund, and stressed the following points :

- the development crisis in Sub-Saharan Africa was far more deep-rooted and endemic than that which prevailed in other parts of the world. Thus, not only did profound changes have to be made in policies and institutions, but also physical and social infrastructure had to be rebuilt more or less from scratch;

- the World Bank's Long-Term Perspective Study provided detailed information on the size of the task and its length with prescriptions for both Africa and the international donor community. The study showed very clearly that no strategy for recovery can succeed without increased aid;
- it was encouraging to note, for the first time, the convergence of views in Africa, on the strategy to be adopted. Reluctance was still being heard in some quarters and some of the most radical recommendations were still being challenged. But, by and large, the battle of theory had been won - and ADB, among other donors, had to be given credit for making itself increasingly heard in favour of the new approach;
- A major element in the strategy for recovery was adjustment and reform supported by fast-spending aid;
- the second phase of the SPA was about to be launched, and would focus mainly on the issues of the size of ADF policy-based lending and its form, which had also to be discussed in the ADF negotiations. It would also be necessary to react to the World Bank's call for more to be done, especially through financing sectoral time-slices of agreed public spending in such areas as human resources development;
- the last item of the negotiations had to be the renewed international interest in the attack upon poverty. All these efforts would culminate in the reconciliation of the two notions which were usually seen as being contradictory but which, in actual fact, had never been so, namely : adjustment and real development;
- the Fund's commitment capacity for 1989-1990 would be almost fully exhausted by the end of this year. Meanwhile credits already approved could not be signed until the last tranche of ADF-V subscriptions was received. Consequently, it was necessary for each and everyone to work towards a quick conclusion of these negotiations to avoid any other risk of misunderstanding. The decisions which would be made would spell out the role that ADF could play in the relaunching of African economies over the years of this decade, which were also critical.

17. He urged the Deputies to reflect on the fact that the ADF was the creation of all its member States and was their chosen instrument for helping the poorest countries and that they controlled 50% of its capital, apart from their one-third share of the Bank's voting power.

18. He also reminded them that the current negotiations would be the first to take place since the events in Eastern Europe and that it had been solemnly declared that traditional aid channels and recipients would not suffer as a result of the increased demands from Eastern Europe. The poorest countries in Africa would look to the Deputies to redeem those words by their actions in the negotiations.

19. The **REPRESENTATIVE OF SPAIN** commended Management for the excellent quality of the document distributed to Deputies.

20. It seemed to him that many of the recommendations made during the GCI-IV mid-term review could also be applied to ADF-V, especially those on project preparation, programming and the co-ordination of policy-based loans.

21. Despite the difficulties in defining countries eligible for the Fund's resources, the needs of the low-income countries for which the Fund was set up in the first place were clearly not in doubt.

22. While acknowledging the existing difficulties in determining the resources needed for the low-income countries, he wanted to know what criteria had been adopted for drawing up the work programme for ADF-VI.

23. He believed that the bulk of ADF resources should go to category A countries to the tune of 90% and that Category C countries should be excluded from project loans.

24. He called on Management to work out mechanisms for utilizing the resources of the Technical Assistance Fund which, in his view, was being under-utilized.

25. The **REPRESENTATIVE OF THE UNITED KINGDOM** associated himself with the previous speakers in commending Management for the working documents. While recognizing that progress had been made, however, he thought that the quality of projects should be improved upon. Excellent programmes had been presented over the past two years, but many documents were still pending.

26. He called for a definition of country eligibility criteria, adding that the existing formula seemed to be applied mechanically.
27. Regarding the difficulties in allocating resources, he wanted to know the procedure adopted by Management for fixing country allocations.
28. He was surprised that the percentage earmarked for agriculture was below the target fixed and wanted to know why the ADF did not increase its percentage for activities in that sector.
29. He recalled the decision taken during the ADF-V negotiations concerning the low-income countries of Category A, which should borrow from the Bank on soft terms, and urged that that aspect be taken into consideration during the discussions.
30. With regard to the Technical Assistance Fund, he pointed out that the main objective of the Fund was to improve the preparation and identification of projects whose preparation and supervision required the highest possible attention from the Bank.
31. The **CO-ORDINATOR** stated that the points raised had been duly noted and would be considered during the sixth replenishment negotiations.
32. The **REPRESENTATIVE OF PORTUGAL** supported the efforts to be made to meet the needs of the poorest African countries but thought that it would be useful to have the indicators referred to in the ADF-V policy document.
33. She emphasized the importance of the agricultural sector, which should play a key role in the future, and thought that the Technical Assistance Fund should be put to better use in the area of project preparation and identification.
34. She urged that the country projects and project loans be tailored to priorities featuring in the EPCPs.
35. The **REPRESENTATIVE OF ITALY** agreed that the ADF was an important tool for the poorest countries in Africa. He expressed satisfaction with the implementation of the directives issued and wanted to have further information on the ratio between commitments and disbursements under ADF-V and eventually ADF-VI.

36. The **REPRESENTATIVE OF FRANCE** shared the favourable opinion expressed on the general implementation of ADF activities. She, however, regretted the non-implementation of the agricultural sector programme, inasmuch as that sector was expected to become a major priority in future.

37. She stressed that it was high time that ADF concretized its directives and formulated a policy that would enable it to put in place activities such as family planning in its welfare programmes, in collaboration with other relevant international organizations.

38. Regarding the Technical Assistance Fund, she shared the concern of the previous speakers.

39. She concluded that the result appeared positive, but endorsed the call for the improvement of the quality of projects.

40. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** thanked the Co-ordinator for accepting to play the role assigned to him by the President of the Bank, thus making it possible to benefit from his experience.

41. He commended Management for preparing the excellent working documents for the Meeting. He, however, regretted that certain directives given to the Bank had not been fully executed, citing as an example the Technical Assistance Fund whose implementation leaned towards institutional strengthening, whereas it was set up to prepare and improve projects.

42. He also regretted that the 40% target of the agricultural sector had not been attained and voiced his concern about the failure of the measures adopted within the framework of economic integration as well as the lack of reaction by governments to the call for a greater display of political will.

43. He therefore exhorted the Bank Group to continue its efforts to improve the situation.

44. On blend financing, the **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** expressed reservations about the inclusion of Category C countries, saying that scarce concessional resources should go to the poorest countries.

45. From the macro-economic standpoint, the Bank should avoid duplication of effort with other international organizations which took a global approach to the African situation.

46. In conclusion, the Bank, as a multilateral institution, should recruit staff available in the non-regional countries. He would like to know what the Bank thought about loans granted by the Fund to countries in arrears.
47. The CO-ORDINATOR, replying to a question raised by the previous speaker, said that the implications of decisions taken during the GCI-IV mid-term review on lending operations beyond 1991, were that the growth rate of the Bank's lending programme would obviously ease off. The concerns expressed by the non-regional countries during the mid-term review went in the same direction.
48. The REPRESENTATIVE OF DENMARK congratulated the Co-ordinator on his appointment and expressed the hope that his vast experience in development banking would serve them as an invaluable source of inspiration and guidance during the meeting. While Norway had submitted written comments to Management on behalf of the Nordic countries, he deemed it appropriate to emphasize certain issues that were of major concern to his country, namely, the blending of resources, the use of the Technical Assistance Fund and the cost-sharing formula.
49. On the question of blending, a comprehensive policy had to be formulated by the Bank Group. The Fund's resources were scarce and resource blending should aim at making the Fund's resources available to relatively richer countries without necessarily penalizing the poor ones.
50. As regards the Technical Assistance Fund, Management should make a careful assessment of what had been done so far, problems encountered and the volume of resources allocated to institutional building and project preparation studies. The assessment should further indicate how many of those studies had actually culminated in projects for Bank and/or Fund financing since priority should be given to project preparation studies in the utilization of the TAF resources.
51. Management's study should be made available to the Deputies to enable them determine the level of allocation to the TAF under the sixth replenishment.
52. With reference to the financial situation of the Fund, he expressed concern about the sharp decrease in the Fund's net income and the possibility of a negative growth by the end of the 1990 financial year. Appropriate measures should therefore be taken to save the situation and avert the potentially negative impact on the Fund. The issue should be critically examined during the forthcoming replenishment negotiations.

53. The **REPRESENTATIVE OF BELGIUM** believed that the exercise would provide concrete arguments to enable State participants to better defend the cause of Africa and the African Development Fund. Belgium was devoted to the strengthening of international finance institutions and multilateral development banks as appropriate channels for the transfer of resources to developing countries. In view of the limited amount of resources available, it was essential to show that the institutions make maximum use of them.

54. His Governor had expressed satisfaction at the decision to carry out a mid-term review of the Fund's operations but had at the same time drawn particular attention to the Technical Assistance Fund and the financial policy of ADF.

55. With regard to the TAF, to which 10% of the total resources of ADF-V were allocated, Belgium was among those countries which felt that the 10% was too high considering the volume of resources by then available to specialized agencies for technical assistance and bilateral funds. While Belgium subscribed to the 10% consensus, it noted that management of the resources of TAF over the past two years had given credence to its initial reservations on the matter. The levels of commitments and disbursements were both unsatisfactory and preoccupying. Management should therefore assure the Deputies that improvements would be made in those areas. He drew attention to paragraph 3.3.3 on the problem concerning the utilization of TAF resources and wanted clarifications thereon, particularly the measures Management intended to take.

56. Furthermore, Management had informed Deputies that the Fund's commitment capacity would be exhausted at the end of 1990. In that regard, he would want additional information on whether actual disbursements were uniform for the various types of operational activities; they were very high with regard to multi-sectoral operations and comparatively low in project-related operations. He would therefore be grateful if Management could submit a prospective evaluation of future disbursements by type of operation and by sector.

57. The **REPRESENTATIVE OF AUSTRIA** commended Management for appointing Mr. Buist as Co-ordinator for the forthcoming replenishment negotiations. Referring to an earlier statement made by the Co-ordinator on the allocation of the voting powers of the Fund, he believed that there was need to reach a consensus on the matter during the replenishment

exercise. He recalled that his delegation had submitted written comments to Management but wished to lay emphasis on the issue of sectoral allocations. His personal view was that sectoral allocations of concessional funds had to be seen differently from those of ADB resources because the very nature of the beneficiary countries required such demarcation. As previous speakers had already pointed out, more resources should be allocated to the agricultural sector in low-income countries. Management should therefore account for the low performance in that sector during the past two years. The social sector should also be given priority in concessional resource allocation because the benefits that could be derived from investments in that sector in the medium and long-terms were quite significant. Another area to be given priority in development assistance should be institution building in the financial sector although it might not be so much a priority in low income countries as in medium income ones.

58. The **REPRESENTATIVE OF THE NETHERLANDS** congratulated the Chairman on his appointment as Co-ordinator for the forthcoming ADF-VI negotiations. He also commended Management for the good quality of the working documents provided. In addition to the written comments his delegation had submitted to Management, he observed that most of the guidelines provided under ADF-V had been observed. He agreed with the German delegate that although the period covered by ADF-V was coming to a close, the relevance of its mid-term review could not be over-emphasized. There was need to substantially improve project quality.

59. As regards country eligibility, the Netherlands was satisfied with the resource allocations to Category A and B countries but felt that the criterion on population should be reviewed under ADF-VI. Most of his colleagues had already made reference to the disappointing low share of the agricultural sector. He recalled that the Deputies had given top priority to the sector during the ADF-V negotiations and recommended a more effective use of TAF resources in the preparation of projects in the sector. He regretted that the TAF resources had been under-utilized in previous years particularly in 1988.

60. Another area of concern was country programming and the Netherlands appreciated Management's efforts in the preparation of EPCPs since country programming was of utmost importance to a qualitative improvement in the operations of both the Bank and the Fund, particularly since the two institutions were getting more involved in policy-based lending. The EPCPs should therefore be reviewed and up-dated on an annual or semi-annual basis. He was also of the view that the EPCPs should be prepared in close collaboration with the World Bank so that they could fit into the donor co-ordination process.

61. With regard to the policy-based lending, he expressed satisfaction at the fact that Management had kept to the percentage of resources recommended by the Deputies under ADF-V, and commended both the Board and Management for that.

62. He endorsed the comments made by his Danish colleague on the Fund's net income and observed that the matter was crucial enough to be given full consideration. He called upon Management to make a comprehensive analysis of the problems that accounted for the sharp fall, such as exchange risks and the cost-sharing formula. To make appropriate recommendations in that regard for the ADF-VI, the Deputies should be aware of the experience gained by Management under ADF-V.

63. Concluding, he expressed concern about the Fund's inadequate post-evaluation efforts and asked Management to take necessary steps to improve the situation.

64. The **CO-ORDINATOR** observed that with reference to financial issues, Management had submitted a proposal on the revision of the cost-sharing formula in the ADF-VI working document and that the issue would be discussed the following day. Management would also respond to other related observations made by Denmark and the Netherlands when reacting to the questions raised and comments made by other State Participants.

65. The **REPRESENTATIVE OF CANADA** joined her colleagues in congratulating the Chairman on his appointment as the Co-ordinator for the sixth replenishment. She also commended Management for the good quality of the working documents prepared and submitted for that meeting. She said that the documents were well presented with many of the points clearly laid out with very comprehensive analysis and refreshing honesty.

66. Most of the points raised so far were an introduction to the negotiations on the sixth replenishment. While recognizing the efforts made to meet the recommended guidelines, she felt that there was need for Management to be more systematic. The Deputies should therefore be informed about the methodologies used to attain the set targets. A closer look at the allocation of resources would be required within the framework of the Sixth Replenishment to ensure that the poorest countries and the poorest within poor countries have access to the Fund's resources.

67. With reference to sectoral allocation, she felt that while it was useful to have specific targets by sector, sight should not be lost of a more strategic cross-sectoral approach. Most of the sectors were interlinked and the whole question of poverty should only be addressed in a co-ordinated manner involving agriculture, health, primary education, women in development and environment. As regards the environment, more work had to be done in terms of sensitization at country level. She concurred with concerns expressed about the short-fall in resources invested in the agricultural sector.

68. She recalled the decision taken during the ADF-V negotiations to allocate 75% of the resources earmarked for the health sector to primary health care and regretted that the said target had not been met. Canada would appeal to other State Participants to explore the possibility of linking most of the related sectors such as population, health and education under ADF-VI in terms of human resources building which Africa needed and to which the Fund should give priority. She stressed that social investment should be the basis of economic investment considering the level of development of African countries. In fact, it should be considered a prerequisite.

69. She commended Management for the progress made in its co-ordination efforts but suggested that measures be adopted on particular procedures to be put in place, especially, in connection with other agencies involved in the co-ordination of development activities in Africa including NGOs.

70. The issue of post-evaluation was also of concern to her delegation because it was an area in which both the Bank and Fund were lagging behind other multilateral institutions.

71. The financial issues had been adequately dealt with during the mid-term review of the ADF-V. Nevertheless, it was necessary to draw attention to the liquidity question as it was of particular importance to Canada. She stressed the need for the encashment schedules to be closely linked to disbursement schedules and commended Management for the serious efforts it had made to address that concern.

72. With regard to administrative issues, she shared the view expressed by her colleagues on the need for an equitable representation of non-regionals on the Bank Group staff.

73. The view that Management had kept within the twenty percent (20%) range for Fund resources allocated to policy-based lending could be misleading because the calculation had been based on a restrictive definition which was not entirely acceptable to her delegation. Policy-based lending should comprise all fast-disbursing loans as well as sectoral and rehabilitation loans.

Management should make a comprehensive evaluation of all policy-based loans to enable Deputies to determine whether such lending was productive in creating the environment for reforms which would lead to the anticipated economic growth.

74. The **REPRESENTATIVE OF FINLAND** expressed satisfaction at the appointment of the co-ordinator of the ADF-VI negotiations. What had emerged prominently from the on-going discussions were the importance to be attached to country and sectoral allocations as well as the failure on the part of Management to attain some of the set targets particularly in the health and agricultural sectors. She knew that it was not easy to comply with such targets in assistance programme generally and therefore recommended an effective country programming and project pipelines on the basis of which Management could inform beneficiary countries about the Fund's policies. The Deputies had previously requested Management to prepare for submission to the Board of Directors a timetable on the preparation of outstanding EPCPs to ensure that they were completed before the mid-term review exercise. She would like to have Management reaction to that recommendation.

75. Finland was also very concerned about the Bank Group's resource blending policy and her Government was against the allocation of TAF resources to Group C countries. The access of poor countries and the poor segments of the population to concessional resources should be given more consideration, as much progress had not been made on that front. Furthermore, traditional project lending should constitute the main thrust of the Fund's activities.

76. Efforts should be made in the agricultural and health sectors and there should be sustained co-ordination between the Bank Group and the UN Population Fund particularly on all matters relating to population issues. She also emphasized the importance of basic education in the area of human resource development. That was clearly stated in the declaration adopted recently at the congress on Education for All in which the Bank Group's Management actively participated.

77. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA**, after congratulating the Chairman on his designation as Co-ordinator for the sixth replenishment and Management on the good quality of the working documents submitted, said that the issues he was going to raise were complementary to the written comments he transmitted to the Bank in April 1990. To start with, he regretted the fact that the monthly report on the lending programme and accompanying project briefs for the months of April, May and June, which should have been submitted to the Board of Directors in March 1990, actually came out in May. Such delays could adversely affect the usefulness of the document in question.

78. Much progress had, however, been made with regard to the timely publication of project briefs although there was need to improve their quality. Progress had also been made in the utilization of the Technical Assistance Fund resources and the preparation of EPCPs. It was to be noted that an effective use of EPCPs could make the Bank Group much more efficient and their preparation should be accompanied by the identification and design of projects and policy-based loans in accordance with the priorities outlined therein. He therefore supported the suggestion made that EPCPs be reviewed on a semi-annual basis considering their operational value and importance. Although he had been informed by his Executive Director that progress was being made in the area of aid co-ordination, he would like to stress the merits of sustained co-ordination between the Bank Group, bilateral donors and the World Bank.

79. With regard to the environment, Management had of course prepared a policy document but the Unit established in the Bank was still under-staffed. He stressed the importance of an appropriate environment to economic development and the Bank Group should step up its efforts in that area.

80. The observation made by the Canadian delegate on policy-based lending was extremely pertinent. It was therefore required of Management to include all projects that were policy-based in character in that category of lending for a more realistic calculation of resources that had been allocated thereto.

81. He expressed concern about the fact that the mid-term review of the Fund's operations was coming up twelve months late and that the Fund's share of administrative costs and burden-sharing was on the increase.

82. The United States also shared the observation made by the delegate from the Federal Republic of Germany on the need for the Bank Group to avoid duplication of efforts through effective co-ordination with other agencies and donors. Other issues on which the United States had similar views with previous speakers included post-evaluation and resource allocation. He believed that country performance should be an important criterion for resource allocation. He called upon Management to establish priorities in the agricultural sector on a country by country basis, within the framework of EPCPs. He pointed out that very important issues had been raised and that Management should provide adequate answers to them before the ADF-VI negotiations got underway.

83. The **REPRESENTATIVE OF SWITZERLAND** appreciated the frankness with which Management had prepared the various working documents. He however felt that additional information was required in certain areas with particular reference to resource allocation. He

wondered why Management had decided to limit country allocation analysis to country categories because, to determine whether the guidelines on country allocations had been complied with, the Deputies should know the total amount of resources allocated to each beneficiary country and the list of projects approved in favour of each of them.

84. More details should have also been provided on sectoral allocation because some targets had not been met especially in the social education and health sector. Management should also indicate what the Bank Group intended to do to enable the poor segments of the population to have access to the Fund's resources. More information should also be given on the lending instruments because the definitions given to some of them were quite controversial.

85. With regard to non-project lending, more detail had not been given on disbursements when in fact it was apparent that they were not consistent with the level of resources allocated. Both the Bank and Fund should endeavour to improve project quality.

86. The allocation of TAF resources still posed problems. There was therefore need for the establishment of clear-cut criteria on the allocation of those resources. His delegation was also suggesting that environmental impact studies be financed from the TAF.

87. The Bank Group still did not have a clearly defined policy on the blending of resources and Management should inform Deputies on how it intended to utilize such an instrument for Bank Group operational activities. The objective of the exercise should repose on the ways and means of making Bank resources available to category A countries rather than the access of category C countries to the resources of the ADF.

88. With regard to regional offices, Management was still to spell out clearly the role they could play in reducing the workload at the Headquarters with reference to loan administration, project supervision and the monitoring of the economic situation of borrowing member countries. The role of those offices should therefore be considered by the Boards of Directors before the conclusion of the ADF-VI negotiations.

89. Concluding, he regretted that there was not enough transparency in the encashment of notes and suggested that State Participants be provided with quarterly information on the issue to enable them to make adequate preparation for the deposit of their instruments of payment.

90. The **CO-ORDINATOR** recalled that a conclusion was reached on the regional offices during the GCI-IV mid-term review. Furthermore, clear guidelines had been provided on the commitments concerning policy-based lending but no guidelines were provided for disbursements.

91. The **REPRESENTATIVE OF JAPAN** observed that there was need for the Boards of Directors to adopt measures to facilitate their work. Those measures should include the timely preparation and submission of the agenda and related documents in order to give enough time to Executive Directors to consult their capitals; and the possibility of holding Board meetings more frequently. He regretted the fact that important issues were sometimes suddenly raised at Board meetings and decisions taken thereon without adequate prior examination. Besides, the fact that the Boards met once a month made it difficult to meet the needs of borrowing countries in a timely fashion. The possibility of having at least two Board sessions per month should therefore be explored.

92. The **CO-ORDINATOR** pointed out that a decision taken on the matter at the level of State Participants could only be applicable to the ADF Board. Note had however been taken of the suggestion for further discussion in due course.

93. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** wanted to know why Management had not still submitted to the Board of Directors the bi-annual progress report on policy-based lending. He recalled that the United States reiterated its request for the document during the consideration of the 1990 administrative and capital budgets of the Bank Group. He supported the Japanese delegate's suggestion on the frequency of meetings of the Boards of Directors of the Bank Group.

94. The **CO-ORDINATOR** assured the US delegate that he had taken note of his concern. In fact, a similar point had been raised in the written comments submitted by the United States of America.

The meeting was adjourned at 11.30 a.m. and resumed at 11.50 a.m.

95. Mr. **MERGHOU** (ADB), replying to questions raised said that, with regard to allocation of resources, Management followed as closely as possible the directives set forth by the Deputies regarding the global distribution of ADF-V resources according to country Categories (A and B).

96. It was worth stressing that the individual country allocation depended on several factors of which macro-economic performance as assessed by the donors community under the Special Programme of Assistance to Africa. The Bank considered also other factors such as project implementation and arrears status towards ADB and ADF. On the whole allocation of resources under ADF-V was largely complied with, and considering the numerous factors which could influence the exercise, Management placed particular emphasis on country performance while distributing the resources as judiciously as possible.

97. Regarding the policy-based loans, the resources which had been allocated were clearly within the limits prescribed by the Deputies; the 20% fixed was not exceeded and such loans were normally granted in co-ordination with the World Bank and within the framework of the IMF monitored programmes.

98. With regard to the Technical Assistance operations, some sluggishness had been observed in the utilization of TAF resources in 1988. However, some progress had been made in 1989. Management was confident to reach the target prescribed by the end of 1990. Concerns had also been expressed about the greater emphasis given to institutional support loans at the expense of project preparation. This relative emphasis was explained by the need for institutional support to back up the various macro-economic and sectoral adjustment measures adopted by a good number of African countries.

99. Policy-based loans were prepared, in close co-ordination and most often jointly with the World Bank, the International Monetary Fund and the countries concerned. In the case of countries which had jointed the Special Programme of Assistance to Africa, co-ordination was also insured with other members of the donor community. The Bank went to great lengths in a number of cases to help recipient countries to formulate policies aimed at enabling them to operate in a congenial economic environment.

100. Concerning the preparation and implementation of Technical Assistance projects, he said that Management would come out with a more comprehensive analysis which it would subsequently submit to Deputies.

101. With regard to Economic Prospects and Country Programming documents (EPCPs), those concerning Categories A and B countries are being finalized, while those for Category C countries were still being prepared. In view of the limited resources at its disposal, Management had settled down to preparing those of priority countries. He noted that EPCPs were highly resources consuming which, in terms of human resources alone, cost the Institution between 15

and 20 million American dollars for regular updating alone. It was worthwhile to point out that on account of the cost factor, the World Bank updated its economic surveys only every two or three years, except for those countries with annual consultative groups such as India and Pakistan.

102. The institution took maximum advantage of the Annual Meetings of the Group to update the assistance strategic sections of these documents, through the dialogue thus opened at the highest levels with the representatives of the countries concerned. Routinely the Bank updates its country briefs including macro-economic and sectoral performance as well as projects implementation performance that are discussed in the appraisal reports submitted to the Board. In order to avoid a duplication of efforts and economize the scarce available resources, the Bank staff participate or exchange Country Economic Surveys with other Institutions such as the World Bank and the IMF.

103. Concerning the sectors of intervention, Mr. **Merghoub** agreed with the Deputies that agriculture was the cornerstone of development in Africa and that although, the Bank had not been able to reach the 40% target set under ADF-V, it had succeeded to achieve a respectable level of 35% much higher than similar institutions as IDA for example for that sector. The quota of resources allocated to the agricultural sector fell below this target because ADF had to take into account recipient countries own priorities as reflected in their public Investment Programmes, which typically do not earmark more than 18 to 20% of the available resources to agriculture.

104. He assured the Deputies that at weekly interdepartmental co-ordination meetings, special emphasis was being laid on the preparation of agricultural projects in order to draw as close as possible to the target. He pointed out that in the present economic context which compelled countries to alter their priorities, the 40% target seemed to be excessive and the Bank would find it difficult to attain it. He added that while the Fund was close to the target in the social sector, projects in this are difficult because of institutional weaknesses in the recipient countries as well as staffing constraints in the Bank Group. Special efforts are being made to overcome the weaknesses and the Technical Assistance Fund is expected to contribute towards that.

105. Concerning the quality of projects and loan portfolio, he explained that with a view to draw the necessary lessons from projects being executed, the post-evaluation reviews had been strengthened and that fruitful negotiations had taken place with the countries concerned so as to thoroughly scrutinize all the projects implemented. That had enabled the Institution and the

various Governments to exchange views on past experience of project preparation and devise necessary arrangements for further opportunities. On the other hand, emphasis was being placed on increasing the role of the regional offices in project preparation and supervision. Precise terms of reference had been drawn up for each representational office which together with the Operational Manual and the Field Offices Manual provide field staff with a set of complete operational procedures.

106. Regarding the role assigned to regional offices, this is normally integrated to the overall work programme of the Institution. For example, the Morocco Office in 1989 and 1990 laid emphasis on policy-based lending and macro-economic work; those of Nairobi and Harare had participated effectively in project supervision, while that of Addis Ababa had handled liaison operations with regional and pan-African organizations like the ECA, OAU etc.

107. The **CO-ORDINATOR** asked whether project completion reports (PCRs) were prepared for the technical assistance operations.

108. The **REPRESENTATIVE OF ITALY** wanted to know how Management dealt with the problem of price escalation during project implementation and whether this could be one of the causes for delays in project implementation.

109. The **REPRESENTATIVE OF THE UNITED KINGDOM**, reverting to policy-based loans, noted that according to the document, such loans were granted, in conjunction with the World Bank, to countries which have embarked on SAPs. Yet, these same countries recorded delays in implementing their projects.

110. Mr. **MWAMUFIYA** (ADB) explained that the inadequacy of the resources allocated to the agricultural sector was due to failure to match the sectoral objectives of the Institution with the new development strategies of countries. To restore the balance, therefore, Management had put particular emphasis on the agricultural sector in the policy dialogue with borrowing countries.

111. He observed that it was very difficult to draw lines of demarcation in sectoral allocations, and that one was constantly left wondering what share to allocate to the agricultural sector, what share to earmark for a support sector, or even whether it would not be wiser to allocate all the resources to a single sector. It was to be noted that loans granted to support sectors like transport often aimed, in the final analysis, at the development of agricultural areas.

Indeed, the only rationale behind certain road projects was that they could connect a farming area to export or consumption centres. This dilemma was removed by the Board of Directors' agricultural policy decision classifying support projects with a strong agricultural component under the agricultural sector.

112. With regard to technical assistance, he explained that the TAF disbursement procedures were long because after approval by the Board they had to go through procurement procedures in order to recruit a consultant who, in turn, would conduct a study. The time required for preparing the study was relatively long, ranging between 12 and 16 months. To eliminate such delays, a co-operation agreement was signed with FAO which had faster procedures in this area.

113. On primary health care, he said an updated table and additional information were being prepared for submission on the following day. As for basic education, the Institution had attended the UNESCO Conference on Education for All, and Management was currently conducting a study on how best to incorporate the recommendations of that Conference in the Bank's relevant policy.

114. Reacting to the remark that there was a long list of completed projects for which no PCRs had been prepared, Mr. MWAMUFIYA replied that there was need for a judicious approach because certain projects had been completed so long ago that one wondered whether it was rational to prepare PCRs on them. Other projects which were expected to have been completed had not been completed owing to certain circumstances, while reports on some completed projects had not yet been prepared because of staff constraints since the available manpower had to attend to other urgent matters. Management had, however, tried to offset those difficulties by recruiting consultants to prepare PCRs. Furthermore, in the bilateral agreements signed with FAO, UNESCO and WHO, the inclusion of PCR preparation had been negotiated.

115. Mr. SARR (ADB) pointed out that document ADB/BD/IF/90/12/Rev.1 gave the number of TAF operations carried out and the sub-division between project preparation and implementation as well that between institutional establishment and strengthening. In terms of figures, 73% of TAF operations covered project preparation and implementation, compared with 67% for the total amounts.

116. He also observed that the majority of the institutional support projects were, in the final analysis, geared towards project preparation, citing as an example the Ethiopian Valley Development Authority project designed to help Ethiopia to prepare studies for valley

development. The rural engineering support project financed in Chad and the rural infrastructure development project in Madagascar were classified as institutional support projects but their main objective was project preparation.

117. He also stated that no project completion reports had been prepared for the technical assistance operations, since Management did not deem the exercise useful because the studies in question generally involved minimal costs. Furthermore, where the conclusions of such studies were positive they generally resulted in preparation of projects which were then submitted to the Board. Concerning the PCRs for institutional support operations, he stated that none had as yet been completed, adding that after the implementation of the afore-mentioned Ethiopian project, a PCR would be prepared.

118. In a reply to the question by the representative of Italy on price escalation in the course of project implementation, Mr. SARR explained that Management normally made provisions for physical contingencies and price escalation. The Bank had several options if the implementation was faced with delays due to failure on the part of the borrower to comply with the loan terms and conditions, or because of problems inherent in a country: either it carried out a mid-term review to find out how best to alter the original objectives so as to keep costs within the budgetary allocation as had already been done for some projects, or it could envisage the possibility of making a request for supplementary loan if the original objectives happened to be indivisible, a situation which had also already cropped up.

119. The CO-ORDINATOR, summing up, noted that further reflection could still be given to the problem of definitions because it was very hard to draw a line in the area of sectoral policy.

120. He said that he had the impression that the new sectoral policy of the Institution in the area of agriculture would be based on a broader concept than that which had served as the basis for the figures presented to the Deputies. He thought it would, therefore, be useful to see the tables and additional information which Management promised to provide the following day.

121. Some clarifications had to be made on issues relating to project completion reports (PCRs) and the utilization of the post-evaluation reports. Obviously, the scanty resources available needed to be economized by avoiding the preparation of unnecessary reports. But, on the other hand, if such an exercise was not undertaken, it would be difficult to tell whether or not

the results would be useful. With regard to the PCRs for technical assistance operations, it seemed to him necessary to prepare them when such operations formed an integral part of projects and programmes, and played a role in the failure or success of operations.

The sitting was adjourned at 1.15 p.m. and resumed at 3.00 p.m.

**CONSIDERATION OF MID-TERM REVIEW REPORT : ADF-V -
ADF/ZF/MTR-ADF-V/90/02) (agenda item 3) (continued)**

122. The CO-ORDINATOR reminded the State Participants that a number of issues still remained to be dealt with. Messrs. MWAMUFIYA and SARR had responded to the sectoral questions raised. It was therefore only fair that he should give the floor to any of the State Participants who might wish to raise further questions because he wanted to make sure that the Mid-Term Review was completed that afternoon.

123. The REPRESENTATIVE OF THE UNITED KINGDOM drew his colleagues' attention to a table annexed to the Mid-Term Review report on the status of the preparation of Economic Prospects and Country Programming Papers (EPCPs).

124. He requested that a slightly different table should be circulated to State Participants, giving indications as to when papers had been submitted to Board members, what was the schedule for the outstanding papers to be presented and what the timetable for the revision of papers that were more than two or three years old was going to be.

125. The REPRESENTATIVE OF CANADA pointed out that in the document on the ADF-V Mid-Term Review, the ADF-VI replenishment of resources and the Annual Report, she had discovered a number of inconsistencies in the information presented. For instance, with respect to the allocation of resources under the ADF-V document it was indicated that 90 per cent of the Fund's resources would be allocated to countries in Category A, while 10 per cent would go to countries in Category B. That 10 per cent allocation had been shown differently in the ADF-VI document and broken down as follows: 5.9 per cent to countries in Category B, 3 per cent to countries in Category C and 3.2 per cent to multinational projects.

126. With regard to the ADF-V document on sectoral allocation, she also observed that the Annual Report had shown different percentages of expenditures for 1988 and 1989 in a number of key sectors such as agriculture, transport, industry and education, etc.

127. She therefore felt that there was a need for broader consistency of available information and would appreciate it if Management would be prepared to comment that afternoon on the points which she had raised. That would certainly be helpful to the State Participants.

128. The **REPRESENTATIVE OF NORWAY** observed that the ADF-VI document contained a detailed table broken down by country, showing the indicative allocation which had been agreed upon by the State Participants under the ADF-V replenishment of resources. He however pointed out that there was no comparable breakdown of the actual commitments made under the ADF-V by country.

129. He therefore requested that the table on resource allocation by country and a comparable breakdown of actual commitments made under the ADF-V be presented together so as to enable State Participants to have an overview of what had actually happened on the commitment side as compared to the indicative allocation. Besides, it would be useful if a breakdown on policy-based lending and project lending would be provided.

130. The **CO-ORDINATOR** felt that it would be easier to include in the second column of the said table allocations which had been approved since they were only presented in the Annual Report. If they were not contained in the Annual Report for 1990 they were also featured in the records of the Board.

131. He therefore urged Management to provide that material to the State Participants and suggested that they deal with country allocation and eligibility issues first during the ADF-VI meeting.

132. He invited Mr. Nkodo to respond to the questions which he had listed before the lunch break, beginning with the status of the development of poverty indicators and so forth.

133. Mr. **NKODO** (ADB), before responding to the various questions raised by State Participants, asked their indulgence to address the issue of the utilization of the Technical Assistance Fund which had been discussed extensively that day by State Participants.

134. He explained that the problem encountered by the TAF resources dated back to the first year of the operation. That was due to the fact that the guidelines and procedures on the utilization of the Fund resources had only been approved by the Board at the end of August 1988.

135. However, total commitments for 1989 had reached a level of UA 76 million for 51 operations, as compared to 13 operations during the first year. During the first five months of the current year, the Fund had made a total commitment of UA 43 million. It was expected to reach close to a commitment level of UA 60 million after the June Board meeting.

136. The overall trend in the utilization of the Fund had clearly demonstrated that the needs existed and that the Fund had the available capacity to deliver.

137. In regard to the issue of poverty indicators, he noted that there was a problem of definition. Under the ADF-V, Management had been instructed to give priority to a certain number of activities which were quite diverse, including the primary needs of the poorest section of the population; employment creation, increased participation of ultimate beneficiaries; integration of women; concerns and improved environmental management. Thus, the ADF-V directive dealt with a broad range of issues which could not easily be quantified in one indicator.

138. Moreover, it would have been very difficult for the Fund to develop such indicators while it had not yet formulated its own policies in some of those areas, such as in Women in Development and environmental management. Therefore, Management intended to undertake that task first.

139. Furthermore, as indicated in the report on the sixth replenishment of the Fund's resources, Management had prepared the terms of reference for the consultant to do the work, and the United States Agency for International Development (USAID) had agreed in principle to finance the study. The results of the study would be available in the course of the discussions on the ADF-VI replenishment of resources.

140. As regards the status of the United Nations Development Programme's Human Development Report, the said report had been published. It would be examined by Management. In that context, a Task Force would be created to look at the whole issue of human resource development, including population. The findings and recommendations of the UNDP report would be taken into account by Management.

141. In regard to the late distribution of the monthly report to the Board on the lending programme, and the need to improve the quality and accuracy of project briefs, Mr. Nkodo noted that the list of projects for the whole year was distributed to the Board at the beginning of the year. Management had always tried to stay very close to that list of projects.

142. Moreover, the monthly report and related project briefs had not been distributed expeditiously owing to the fact that a number of projects were being updated in the light of recently completed missions and on the basis of new preparatory missions. Management intended to improve the quality of project briefs, its accuracy and timing for submission to the Board.

143. The **REPRESENTATIVE OF THE UNITED KINGDOM** did not quite understand the explanations given by Mr. Nkodo in response to the issue of poverty indicators. In the lending policy guidelines on ADF-V, it was indicated that a set of appropriate indicators would be developed for each of the objectives which included environmental performance, meeting the basic needs of the poorest section and creation of employment etc. Therefore, there was a fairly specific undertaking to develop those indicators.

144. Mr. **NKODO** reiterated that a number of priority areas had been identified in the ADF-V lending document. Those priority areas had to be translated by Management and the Board of Directors into specific objectives of what the Fund intended to do. For instance, in the field of environment, a policy paper had been prepared, thus making it possible for Management to define a clear set of objectives the Bank Group intended to pursue in environment. It would be possible to develop performance indicators on the basis of those objectives.

145. The **CO-ORDINATOR** wanted to know whether those areas which had been mentioned in the guidelines would be addressed by Management in the light of the work in hand.

146. Mr. **NKODO** explained that most of those priority areas had been covered. Moreover, some of those objectives, such as the promotion of economic policies which assure the most efficient distribution of resources, were being pursued under the policy dialogue with member countries and policy reforms undertaken under policy-based lending.

147. Management had developed a policy document on women in development, which defined the objectives to achieve in the area. It was in a position to develop the operational guidelines required to ensure policy implementation. Similarly, Management was currently in the process of developing sector-specific guidelines on environmental issues, as the approach to be adopted would vary from one sector to another.

148. Concerning the environmental guidelines, the Government of the Netherlands had agreed in principle to provide a consultant to carry out this work. Both parties had also agreed on the terms of reference. The guidelines would be ready by the end of the year.

149. However, he pointed out that the question of developing guidelines was not the major issue. But the issue at stake was how to operationalize those guidelines as and when they had been developed. That was closely linked to the issue of staffing so as to ensure that the guidelines were applied throughout the project cycle.

150. The CO-ORDINATOR believed that the Fund's Management could also have a short cut to the procedures because those procedures in force in other institutions could be borrowed.

151. Mr. NKODO pointed out that Management was in possession of the guidelines which had been developed by the Asian Development Bank, the World Bank and recently the Executive Director for Canada was very kind to provide the guidelines developed by the Inter-American Development Bank. Therefore, Management was actually drawing from the experience of those institutions in its day-to-day work. Besides, those guidelines would be used as major inputs into the work of developing the Fund's own guidelines.

152. The REPRESENTATIVE OF FINLAND noted that the guidelines would be developed on a number of sectors, especially environment and women in development. She wanted to know how the staff training programme was being organized in those plans. She felt that even though policy papers and sectoral guidelines would be prepared, the implementation of those guidelines by the staff was very important.

153. Mr. NKODO agreed that the issue of training was essential. But in the area of women in development, in particular, Management could be quite positive as to what it had achieved. Emphasis had been placed on the need to sensitize the Bank's staff. A great deal of staff training had been undertaken in association with the Bank's Training Centre. Furthermore, it was expected that a series of training courses would be organized in collaboration with the Harvard Institute in September 1990, to train Bank staff on the application of sector-specific guidelines.

154. Similarly, in the area of the environment, the Fund's Management intended to proceed along the same lines, i.e. to develop sector-specific guidelines and later introduce a series of seminars, drawing from outside expertise such as UNEP and other specialized organizations.

155. The CO-ORDINATOR recalled that the Nordic group had raised one question in writing under the women in development item as to the status of the eleven projects which had been discussed with the UNDP.

156. Mr. NKODO explained that reference was made to eleven projects in the Mid-Term Review report. Those were projects which had been identified by the Women in Development Unit as having a special focus on women. Management was now actually discussing those projects with the UNDP. Most of those projects had been dealt with through the Bank's normal processing procedures, and three or four of them were being prepared under Technical Assistance operations. Another three were at the final stage of review and submission to the Loans Committee. The remainder were still under consideration. Two or three of those projects would be submitted to the Board for consideration before the end of the year, while the remainder would go to the Board the following year.

157. The CO-ORDINATOR invited Mr. Merghoub to take up the question on the state of play on the evaluation of the effect of policy-based lending.

158. Mr. MERGHOUB pointed out that following the ADB Mid-Term Review meeting held in Paris in February the Fund's Management drew up an action plan on all the major actions required by the Deputies. Regarding the evaluation of policy-based lending undertaken by the institution, it was agreed by Management that an evaluation would be carried out by OPEV and outside consultants with the support of the two programme departments.

159. The budgetary implications of the exercise were being discussed by Management and the identification of a Co-ordinator was being sought to enable it to produce a report by June 1991.

160. In parallel with the exercise, the Fund's Management was currently exchanging views extensively with the OED of the World Bank on the work which they had done not only on the African but countries in general in order to define the methodology and prepare appropriate terms of reference. Management wanted to be extremely careful in preparing a specific and detailed terms of reference and avoid duplication with the work undertaken by others in this area.

161. The CO-ORDINATOR felt that since the Fund was undertaking joint operations with the World Bank and they had agreed on the timing, presumably, material would be available in the World Bank for the effectiveness of those particular operations. That might reduce the amount of work to be done.

162. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** was pleased to note that much progress had been made on the evaluation exercise. He however requested that the report should be ready on time for the Annual Meetings in 1991.

163. The **CO-ORDINATOR** hoped that Management had taken note of the request made by the US Representative because of the importance of the report so as to enable the Governors to have it reviewed. He noted that several parties were involved in the exercise, but it would be advisable for the consultant and the evaluation people to do a proper job. The wisdom of finalizing the report by that time had been noted.

164. Mr. **MERGHOUB** pointed out that the subsequent Annual Meetings would be held in May 1991. Management had set a time-limit of June 1991, but would do its best to meet that deadline.

165. The **CO-ORDINATOR** invited Mr. Bucknor to respond to a number of questions raised by State Participants on financial issues which, among others, included questions on disbursements and encashment, net income, administrative costs, liquidity and encashment schedules.

166. Mr. **BUCKNOR** (ADB), addressed first the issue of the Fund's resource position and explained that the total subscriptions to ADF-V currently stood at FUA 2,199,000.3 million, representing 98 per cent approximately of the aggregate pledge of FUA 2.250 billion. The outstanding balance on subscriptions to ADF-V amounted to FUA 50.70 million, representing pledges in respect of two countries, namely Argentina (FUA 16.9 million) and Saudi Arabia (FUA 33.75 million). Those amounts had not yet been subscribed.

167. Out of the total amounts subscribed to ADF-V to date, an amount of FUA 743.113 million representing the third tranche of subscriptions to ADF-V was not currently available for loan commitments. That was due to the fact that the resolution stipulated that the third tranche became available from the second anniversary date of the relevant instrument of subscription taking effect. That implied the amount would become available essentially in November and December 1990.

168. To date excluding the implications of exchange translation which had not yet been calculated, the Fund's capacity was a negative figure of about FUA 225.683. Loans could therefore only be approved on a provisional basis until the release of subsequent tranches.

169. Taking the figure of FUA 743.113 million that had not yet become available from the third tranche and subtracting from that amount FUA 225.683 million, the Fund would have a commitment capacity of some FUA 500 million, representing 72 per cent of the loans based on a preliminary analysis approved in 1989.

170. The CO-ORDINATOR felt that before dealing with the other financial questions, it would be helpful if the two State Participants concerned, namely, Argentina and Saudi Arabia, informed their colleagues about their plans to honour their pledges under ADF-V.

171. The REPRESENTATIVE OF ARGENTINA was not in a position to make any comments on the issue because he was not aware of the situation or position of his country's Central Bank.

172. Mr. TSUKAGOSHI (ADB) informed the State Participants that in his capacity as Executive Director representing Saudi Arabia, he was not in a position to comment on the matter without consulting with the Representative of Saudi Arabia who was not yet present in the conference centre.

173. The CO-ORDINATOR asked the Representatives of the two countries to take note of the importance which State Participants attached to the payment of the remaining subscription given the state of the Fund and invited Mr. Bucknor to respond to the remaining financial questions raised.

174. Mr. BUCKNOR, replying to the question on the ratio between disbursements in a given year and the encashment that had taken place in that particular year, stated that his response would be broken down into two periods. He would provide the figure for 1987-1988 and then the figure for 1989, as well as the projected figure for 1990.

175. With regard to 1987 and 1988, the ratios of encashment to disbursements were 99.8 per cent and 105 per cent, respectively. That implied that the amounts encashed were very close to the amounts that were disbursed.

176. For 1989, that figure dropped to about 42 per cent, while in respect of 1990 the Management was projecting a ratio of about 85 per cent. The decline in 1989 was obviously the result of the directive given by the Deputies that the Fund's liquidity should be reduced, implying that Management had to cut back on encashments, while the pace of disbursements continued.

177. As already indicated, that ratio was projected to rise to about 85 per cent in 1990, meaning that the Fund would be disbursing a larger amount than it would be encashing so as to maintain the liquidity target set by the Deputies under ADF-V.

178. As regards the question on the Fund's position regarding lending to countries in arrears, it was explained that the Board of Directors had recently approved the application of a new sanctions policy to deal more effectively with the issue of arrears. Arrears on ADF loans amounted to a small percentage of about 0.14 per cent of total outstanding loans.

179. The policy on sanctions was tighter than what was previously in operation. Obviously, the Fund's Management worked in concert with borrowing countries in arrears to find constructive ways to assist them to come up with funds to meet their obligations. Moreover, a cross-default clause existed between arrears owed to the Bank and arrears to the Fund.

180. Overall disbursements forecasts measured against the actual amounts that had been disbursed in given years had been reasonably accurate and they were improving. Over the past five years the average was about 88 per cent. In other words, the Fund had disbursed about 88 per cent of the amount it had forecast.

181. Detailed information on disbursements relating to specific types of lending activities could, if required, be provided in a separate document.

182. With regard to the question raised on the encashment of notes and the need to have more transparency and foresight in planning encashment schedules so that these would not create budgetary allocation problem for certain donors, it was explained that 1988 and 1989 were special years as far as encashments were concerned for a number of reasons.

183. Firstly, in 1988 the level of disbursements which Management had anticipated was lower than expected; it was 78 per cent of what was anticipated. That was primarily due to the delays in the ADF-V becoming effective. The Fund's disbursements forecast and consequently encashment schedules had been based on an earlier trigger date for the ADF-V.

184. Secondly, there was also an unanticipated increase in the Fund's liquidity, to the extent that certain participants had decided to pay their subscriptions in cash. In 1988 an amount of FUA 45 million had been received, while in 1989 FUA 53 million was received, therefore increasing the level of liquidity and affecting the forecast encashments. There was also the key

requirement of meeting a specific liquidity target which had been set in 1989. That was another variable that had come into play, meaning that Management had to monitor disbursements on a quarterly basis to be able to determine whether or not it could meet the liquidity target.

185. The lesson learned from that experience was that while the Bank's Management had improved its ability to provide an annual forecast of the level of disbursements, it had to go further by forecasting disbursements on a monthly basis. This was now an objective of Management.

186. As regards the question of the Fund's net income, section 6.1.4 of the Mid-Term Review Report had addressed that issue in detail by tracing the evolution of the key components that made up the income and discussed how each of the factors had affected the Fund's results.

187. Administrative expenses had increased over time as a result of the application of the Fund's cost-sharing formula which was directly related to the number of loans being processed by the Fund. In addition, foreign exchange translation movements affected the income. There was also the fact that the Fund's liquidity had declined. Therefore, the income earned from investments had declined, despite the fact that the returns on investments had improved.

188. The **REPRESENTATIVE OF CANADA**, given the fact that she had raised one or two questions under the financial heading, came back with a couple of questions.

189. She wondered whether it would be possible for her to receive in the context of the replenishment discussions some of the information which Mr. Bucknor had provided to State Participants on the status of the net income and commitment authority.

190. She sought clarifications on the explanations given by Mr. Bucknor that the third tranche of some contributions would be available only in November and December 1990. She wanted to know whether that meant commitment authority would become available as soon as the third tranche was fully in place and that available commitment authority would extend beyond December 1990 into 1991.

191. Regarding the relationship between encashments and disbursements, she noted that Mr. Bucknor had made reference to the special accounting or disbursement difficulties facing some Fund donors. Her country was one of the donors whose aid budget had been directly affected by the encashment schedules. She also noted that some donors were in a more pleasant

position because as soon as they had made their pledges, disbursements were taken care of by their Central Banks. Unfortunately, Canada did not enjoy such an advantage and was finding it increasingly difficult to manage the cash flows.

192. Therefore, the difference in an encashment of US\$ 100 million on 31 March or 1 April, which was the turnover point of her country's financial year, could have either advantageous or extremely disadvantageous effects on the outcome of their own disbursements for the whole Agency.

193. For that reason, she strongly stressed the need for donors like Canada to establish a very open and close relationship with Mr. Bucknor and his colleagues on the exchange of information on the issue.

194. Mr. BUCKNOR, replying to the question raised as to whether there would be sufficient capacity to make commitments up to 1991, explained that based on rough calculations, if the Fund were to add on the tranche that had not yet become available, one would obtain, in addition to provisional commitments already made of FUA 226 million, resources available for the rest of 1990's commitments of about FUA 517 million compared to the approval figure (less cancellations) for the previous year of FUA 699 million. He therefore estimated that at the end of 1990 the commitment capacity that would remain and could be used in 1991 would amount only to some FUA 54 million.

195. The REPRESENTATIVE OF ITALY said that, according to the explanations given by Mr. Bucknor, the for cash flow requirement for the year was some 42 per cent. That percentage was correct, but he observed that the Fund had claims on his country treasury of about 438 million liras which was quite an enormous amount.

196. He recalled that his country had had drawings only on the third and fourth tranches, but had nothing on the ADF-V. He wanted clarifications on the issue.

197. Mr. BUCKNOR stated that Annex 1 of the proposal for ADF-VI had set out the Fund's disbursements and encashment projections. There were no indications for 1990, but the Fund expected to encash FUA 434 million and disburse about FUA 508 million. Those were global figures meaning that encashments would represent about 85 per cent of the total level of disbursements. The reason for arriving at the figure of 85 per cent for 1990 was because the Fund still had a liquidity reduction target of FUA 30 million.

198. As for the breakdown on specific encashment schedule for individual countries, he assured the State Participants that his Department would look at the figures and have them reconciled.

199. He noted further that the figure of 42 per cent referred to by the Representative of Italy was in respect of disbursements for 1989; and that the reason for arriving at the figure of 85 per cent for 1990 was because the Fund still had liquidity reduction target of FUA 30 million.

200. He said that he would be pleased to verify the specific figure for Italy, if necessary, but pointed out that the Representative was probably counting encashments in respect of previous replenishments not yet made.

201. The **REPRESENTATIVE OF DENMARK**, referring to the commitment authority and the figures mentioned by Mr. Bucknor for 1989 and 1990, wanted to know the commitment figure for the first year which he expected should be fairly low. If that was the case, his own figure did not then add up to approximately FUA 2.2 billion, especially taking into account the non-subscription of Argentina and Saudi Arabia.

202. Mr. **BUCKNOR** explained that the Fund's commitment figure for 1989 was FUA 699 million. That figure was contained in the Annual Report. The amounts approved for 1987 and 1988 were FUA 588.81 million and FUA 615.62 million, respectively. This represented commitments less cancellations while the Representative of Denmark was probably referring to gross commitments.

203. The **CO-ORDINATOR** wanted to know whether the Fund would have a safety margin to take it up to 31 December 1990 if those figures were added up together.

204. Mr. **BUCKNOR** replied that the cumulative figure of commitments for the three years had come up to FUA 1.9 billion, meaning that there was a small safety margin.

205. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** wanted to know whether the non-transfer of FUA 50 million from the Fund's reserve would wipe out the deficit projected for 1990.

206. Mr. **BUCKNOR** said that if the amount of FUA 50 million was not transferred and those funds were invested at current rate of interest it would add an additional FUA 5 million approximately to revenues for the Fund. Therefore, the projected loss situation expected in 1990 would be improved; the Fund would have a positive net income with this extra liquidity.

207. The **CO-ORDINATOR** observed that there were no further questions to be raised on financial issues. He invited Mr. Norris to respond to the questions relating to the redeployment exercise, the recruitment of non-regional staff and the allocation of staff to priority areas mentioned by State Participants and so forth.

208. Mr. **NORRIS** apprised the meeting of the various steps taken on the implementation of the staff redeployment programme which had been approved by the Board of Directors on 17 April 1990.

209. The Job Evaluation System, which was approved in May on the recommendation of the Administrative Affairs Committee, would be implemented up to the end of the year. The Performance Evaluation System was being revised for presentation to the Board of Directors in August 1990. Management was working actively on the implementation of the staff appeals mechanism which was approved in November 1989.

210. The second major activity was the staff reassignments programme designed to place staff in positions where their skills and qualifications would be best utilized. The preliminary analysis had been completed and the reassignments would be undertaken in June.

211. Three pilot programmes to test the integrated improvements approach were to be mounted respectively in the Operations, Translation and Human Resources Management Departments.

212. Among the ongoing activities were the Early Retirement Programme which was approved by the Board in May 1990 and the decision, consequent on the policy to intensify the drive for staff recruitment in the non-regional member countries, to undertake an advertisement campaign in each of the 75 member countries.

213. The planned activities for the remainder of 1990 and the beginning of 1991 were centred on several key areas. Firstly, a further effort would be made to improve the quality of Bank staff, analyzing another group of staff for redeployment, and implementing the human resources management systems mentioned earlier.

214. In 1991, the Operations and Translations pilot programmes would be undertaken whilst the second phase of the effort to improve staff quality was pursued. As indicated in the report repared for the ADF-V Mid-Term Review, there had been only modest progress in the recruitment of non-regional staff due to several factors :

- the limited growth in staff recruitment meant limited vacancy opportunities;
- a relatively limited pipeline of qualified non-regional candidates;
- the Bank's compensation and benefits package was not effectively attractive when compared to other employers, especially in the private sector.;
- the whole recruitment system was also being reviewed with a view to identifying suitable candidates, especially from the non-regional members.

215. Specific staffing issues were raised in relation to the Operation Evaluation Office (OPEV), the Environment and Women in Development. The 1990 proposed staff indicated a plan to strengthen OPEV by 4 professional positions which would have raised the professional staff strength by 50%. The twin areas of environment and WID were being examined in preparation for the 1991 Budget with a view to operationalizing the existing policies and guidelines by increasing their staff resources not only to reinforce procedural aspects but also, more importantly, to provide some qualified staff resources to the Operations Department. The two professional staff as well as the majority of the supporting staff in WID were provided under a UNDP-funded project. The UNDP had indicated that the funding was likely to end. However, Management was committed to increasing WID's staff resources, possibly with internal staff redeployment, as part of the 1990 and 1991 exercise, so as to enable the Unit to continue its good work.

216. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** felt that account should be taken of the importance of human resources management. He observed that Mr. Norris spoke about two steps in the effort to improve staff quality, and wondered whether there was any distinction between the two.

217. Mr. **NORRIS** replied that the distinction was simply necessitated by the capacity to process objectively the large number of Bank staff being considered for early retirement. Whilst the first phase was to focus on staff that were 50 years old and above, the second would deal with a larger number, namely those that were 49 years old or below. The objectives and procedures were essentially the same, hence the programme should be viewed as a continuing project. It covered all staff below Vice-President down to the manual staff, but did not include the elected officers.

218. A mechanism had been put in place, under the supervision of a Vice-President, to ensure that the process was as objective as possible. A balance was established between the initiatives and actions undertaken by the Human Resources Management Department (AHRM) and those of the departments concerned about staff performance and capability.

219. There were so far no specific figures about the total cost of the redeployment programme because the number of staff to be included in the second phase was yet to be determined.

220. The **REPRESENTATIVE OF CANADA** recalled that the issue of management capacity in the area of macro-economic policy raised during the GCI-IV Mid-Term Review was obviously of crucial importance to the operations of the Fund. The Bank had been encouraged to increase its expertise in the area. She would be grateful for a progress report thereon.

221. Mr. **NORRIS** responded that the improvement in the Bank's macro-economic policy capabilities, through the need to increase the number of staff, had not been achieved. A specific recommendation was made in the 1990 Budget proposals for additional staff in that area but the said recommendation was not approved owing to some scheduling concerns on the part of the Board of Directors.

222. Mr. **MERGHOUB** added that the Bank was trying to do its best to improve the capacity of delivery of Bank staff, by undertaking joint EPCPs with the World Bank, participating more and more in IMF training programmes, and improving the quality of Bank reports through the more systematic and issues-oriented types of reviews so that the EPCPs were less descriptive and more operational. However, the improvement of Bank capacity would depend largely on the possibility of increasing the number of its economists staff; at present, his department had 6 permanent economists for 25 countries covered by the department.

223. Mr. **NKODO** reiterated the assurance that every effort was being made to avoid discontinuity in the staffing of the WID Unit and added that the extension of the project to March 1991 had been made possible only through the reallocation of resources. What was done under the existing UNDP Agreement was to reallocate most of the resources still available to financing staff remuneration while mission and travel expenses were transferred to the regular budget of the Bank. But since that device had a limit because the cancellation of UNDP funding had not been envisaged, immediate alternatives had to be found.

224. The **REPRESENTATIVE OF CANADA** appreciated the reminder of the need for Deputies to co-ordinate their policies towards all the institutions working in the area under consideration. Her delegation held the view that whilst meeting UNDP's bridging assistance, the Bank should strive to build up its own internal capacity in the area.

225. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** asked : (i) what was the staff situation of the Environment Unit? (ii) what was the number of vacant professional posts?

226. Mr. **NORRIS** answered that there were 63 vacant professional posts, made up of 12 Young Professionals, 16 managerial (Director, Deputy Director and Division Chief), and the remainder regular professional positions. Of those vacancies, which included 11 in the Computer Services Department (ACOS), recruitment activity was underway, but was not yet completed for 15, whilst candidates for the rest had been selected after completion of the process. Thus, the vacancy position was relatively constrained.

227. Mr. **NKODO** pointed out that the real issue was not to strengthen the Environment Unit as such, but to reinforce the capacity of the Operational departments by having an environmental specialist in each Projects Department. Eventually, there would also be a need for replacing the technical assistance personnel in the Environment Unit with regular staff as and when these experts are withdrawn.

228. The **CO-ORDINATOR** observed that staff with the necessary experience and professional background were extremely difficult to find. It was an area worthy of special attention after determining the level of ADF-V replenishment and its human resources priorities.

229. The **REPRESENTATIVE OF THE UNITED KINGDOM** deemed it necessary to register some concern on the policy areas, to which Deputies attached significant importance, namely WID and the Environment. It seemed that the Bank was at the moment placing heavy reliance on extra-budgetary sources of financing which, in the case of WID, was a very insecure form for the financing of activities. The Bank should move as quickly as possible to bring it into the regular Budget.

230. Linked to that was the question of technical assistance which a number of donor governments were currently providing to the Bank. He understood that it was concentrated in professional posts in the operational departments. Certain donors, including the United Kingdom,

were presently reviewing whether that form of assistance should continue. A decision by any of the major donors for an early termination of their assistance would have serious implications for the operational effectiveness of the Bank.

231. Putting all the foregoing elements together suggested that, in the major areas where the Bank was required to strengthen its performance, there were underlying weaknesses because the resources rested on a tenuous basis.

232. The CO-ORDINATOR remarked that although the problem was not to be tackled at the present meeting, there was need for discussion between Management and those donor countries still willing to continue to supply technical assistance. Perhaps, they should have a thorough look at it so as to bring together meaningfully the Bank's own internal priorities, as modified by the wishes of the State Participants in relation to the Fund, and what staff resources were available, and what could not be found, as a result of the constraints alluded to by Mr. Norris, and therefore, required temporary assistance from individual donor countries. Obviously, the process was underway, though in a piecemeal fashion.

233. He enjoined all those concerned to reflect on the matter and take it up further and separately from the replenishment exercise.

234. Mr. NORRIS indicated that the Bank was actively working on the technical assistance programme and its future. The 59 technical assistance positions in the Bank were being examined and reviewed as to whether they should remain as such or be converted into Bank positions. The exercise was necessitated by the definite changes noticed among the donor countries and agencies.

235. The REPRESENTATIVE OF DENMARK reverted to the issue of the remaining commitment authority. He observed from the Annual Report that the approvals for 1989 stood at FUA 8 million against FUA 616 million in the previous year. He would like to have definitive figures on the following day on account of the important relevance of the remaining commitment authority to the urgent need to complete the replenishment exercise.

236. Mr. BUCKNOR explained that page 152 of the Annual Report provided data on commitments less cancellations and that this is what he was referring to. This possibly explained the apparent confusion. However, the correct definitive figures would be provided later if necessary.

237. Meanwhile, he wanted to make a correction of his earlier statement as he had not clearly understood the question about the FUA 50 million taken from the reserves. Since FUA 50 million had not been deducted from the projections provided on the Fund's liquidity and income this would not make a difference in the projected net income. The projected net income was based on a liquidity level of FUA 350 million part of which was represented by the current reserves to the Fund.

238. The **REPRESENTATIVE OF SAUDI ARABIA** said his delegation had received a note about their contribution to ADF-V. He emphasized that the country's contribution to international development aid was very high in terms of GNP. Prevailing circumstances had made it necessary for the Saudi Government to set up a committee to review its contribution to bilateral and multilateral aid. The outcome of the committee's work would be communicated to the Bank. Although it would like to maintain the present 2.7 per cent contribution to ADF, it required time to finalize the arrangements.

239. The **REPRESENTATIVE OF THE FEDERAL OF GERMANY**, referring to Mr. Bucknor's explanations, noted from the document that the net income projected was shown as negative under the President's introduction. Also, in another place, it was indicated that the administrative costs of the Fund might have to be funded partly from the encashments. He was therefore not quite clear about the figures, and asked for more detailed clarification of them.

240. Mr. **BUCKNOR** explained that at the end of 1989, the Fund had a reserve position of FUA 197 million, arising from accumulated income and liquidity of FUA 397 million. A portion of the liquid assets held at the end of the period was represented by the accumulated reserves. That liquidity was invested to generate income. The question was if reserves were reduced by FUA 50 million, what would be the impact? If FUA 50 million was deducted from FUA 397 million, there would be a direct negative impact, with the liquidity declining accordingly.

241. The financial projections had been based on the fact that the Fund had been asked to maintain a liquidity level of FUA 300 million, as well as an assumption in the "proposal" document based on the existing cost-sharing formula that was to be revised. A portion of the encashed funds would have to be used to meet the Fund's administrative expenses.

242. The **CO-ORDINATOR** thanked the staff members for their detailed explanations. He summarized the outcome of the Review broadly as follows :

- a) There had been a general welcome for the Management document, and especially for the frankness and clarity of its analysis.
- b) There had been an emphasis on the importance of the conclusions of the ADB GCI Mid-Term Review insofar as these also affected the work of the Fund.
- c) It was recognized that many of the ADF-V guidelines had been faithfully observed, but that it had not been possible to comply fully with some other important guidelines.
- d) Staff had answered a number of questions, and had provided extra information to update the main document and to address specific concerns raised by State Participants.
- e) Some particular concerns of the latter were the shortfall on the sectoral target for aid to agriculture; the use of the TAF; the need for progress on indicators for implementing work on poverty alleviation, the environment, and women; the need for continued attention to improving project quality; the evaluation of policy based lending operations; and certain financial and administrative issues.
- f) The meeting had identified a number of policy issues which would be taken up in the immediately following ADF-VI negotiations.
- g) Despite the delay in holding the Review, and its limitation to make much impact on the rest of the ADF-V lending period, it had been a useful experience. Suggestions for incorporating a similar review in ADF-VI would be considered in those negotiations;

State Participants would be asked later to consider a draft Report on the Review. He envisaged that for future reference it would be useful for the detailed record of the meeting to be attached to this Report.

CONSIDERATION OF THE PROPOSAL FOR THE SIXTH REPLENISHMENT OF RESOURCES (ADF-VI/CM/90/01)

243. The CO-ORDINATOR called on Management to present the document on the above item.

244. Mr. RWE GASIRA recalled that the Board of Governors, in its Resolution B/BG/89/08 approved in Abuja, Nigeria, requested the President of ADB to take necessary steps to prepare the sixth replenishment of resources. The document thus presented included the initial steps taken by Management for the replenishment of the Fund resources. He then gave the broadlines of the six chapters of the document.

245. Chapter I highlighted the economic situation of Africa which continued to be affected by a combination of various unfavourable factors despite intensified efforts of economic recovery measures carried out in the region. It summed up the major aspects of the present economic environment and put forward arguments in favour of the flow of concessional resources for low income countries. The chapter ended on the analysis of the role which the African Development Fund could continue to play vis-à-vis the situation.

246. Chapter II presented an evaluation of ADF operations and referred to the implementation of the guidelines issued by the Deputies during the consultations of ADF-V relating to especially operations, finance and administration.

247. On the whole, the mid-term review report of ADF-V pointed out that the Fund's performance during the past two years, had been satisfactory and in conformity with the guidelines of the Deputies.

248. Regarding Chapter III - consolidation of the initiatives in respect of ADF-V and areas to which ADF-VI would pay particular attention - ADF operations, in the next period of replenishment, would be based on the initiatives and programmes embarked upon during the replenishment of ADF-V and ADF-VI. Certain major issues needed very careful consideration during the the next replenishment period. They involved policy-based loans, the fight against poverty, debt relief and economic integration. The chapter also emphasized the efforts made to consolidate previous initiatives and actions, as well as measures which Management proposed to implement.

249. With regard to debt relief, for instance, considerable progress had been made in recent years given the peculiar situation of Africa. However, much remained to be done in order to find a more lasting solution to the problem. Thus, debt relief had been proposed as a major issue to which the activities of the Fund would accord an important place during the ADF-VI period.

250. Concerning poverty, the Bank Group had taken various steps with a view to resolving the problem which affected over 300 million people; nevertheless, it could be said that the Fund had initiated, in a satisfactory manner, a series of practical and effective policies and instruments for the elimination of poverty. As the governments were themselves in similar situation, it had become necessary for the Fund to seek more effective approaches rather than consider the problem unsolvable.

251. From the economic integration standpoint, it was obvious that the Bank Group had much to do to promote multinational projects and economic integration in Africa. However, steps had been taken to surmount some of the difficulties encountered.

252. With regard to Chapter IV which treated priorities by country and by sector, the resources of ADF-VI would be allocated as follows : projects and programmes would receive a share of 80% and the remaining 10% would not be appropriated.

253. The agricultural sector, as in the past, would continue to absorb the largest share (30%) of the resource in respect of ADF-VI, but the percentage remained less than the 40% allocated to the sector under ADF-V. The transport sector and the social sector would be accorded second priority and each would receive 20% of the Fund resources.

254. Special attention would be given to the social sector under ADF-VI: it would be allocated 20% as against 15% under ADF-V. The Fund's operations in the health and education sub-sectors would be guided by Bank Group sectoral policy documents.

255. The Fund would act with dynamism in the social sector with a view to implementing during the replenishment period of ADF-VI, its programme of action to alleviate poverty.

256. 18% of the resources of ADF-VI would be reserved for public utility projects in order to promote potable water supply and put in place sanitation and electrification networks in the community. 12% would go to industry.

257. Lastly, considerable effort would be made to ensure that issues relating to environment, population and women in development received the attention needed in the drawing up and implementation of projects and programmes.

258. Concerning Chapter V relating to the Sixth Replenishment of ADF resources, the work programme (1991-1993) took account of several important factors.

259. The distribution by lending instrument proposed for ADF-VI differed from the operational guidelines of ADF-V. The priority accorded to project lending activities was retained, but with an allocation of 65%, of which 50% for projects, 10% for lines of credit and the remainder for sectoral or rehabilitation loans. The share allocated for loans to the support of economic policy reforms was put at 25%.

260. Under the sixth replenishment, it was proposed that the technical assistance for Category C countries be financed in the form of grants.

261. The replenishment level which would be fixed by the Deputies should not represent simply an exercise intended to increase resource flows towards African countries, but it should also partly reflect the general effort in increasing the level of investments.

262. Lastly, Chapter VI which treated the study of the financial management of ADF, analyses the major issues of financial management relating to the Fund operations, namely :

- disbursement performance of the Fund since 1986 as compared to the objectives set;
- trend of Fund resources and incidence of variations of exchange rate on such resources;
- trend of income and operating costs of the Fund since 1986;
- cost-sharing formula;
- exchange risks control;
- Fund liquidity position following the directives on liquidity given by the Deputies under ADF-V;
- loan arrears and accounting policies applied in their regard; and
- income and cash flow projections for the Fund.

263. In conclusion, Mr. RWE GASIRA emphasized that the financial management of the Fund recorded improvement in respect of disbursements and return on investments. Steps had been taken with a view to controlling exchange risks. Although a better disbursement result led to upward revision of the disbursement levels envisaged, Management was committed to strengthening its action in that area by improving its working procedures.

264. Management would therefore like to reiterate the observations made during the discussion on ADF-V regarding the negative effects of the unfavourable variations the exchange rates could have on the Fund commitment capacity, in view of the decision taken under ADF-V not to apply to the Fund a policy of building up reserves.

265. Regarding the chapter on priorities and eligibilities, the CO-ORDINATOR thought that it was necessary to study the impact of updating the figures produced per capita and draw the necessary conclusion. He would like to know if the classifications recommended should be adopted or amended.

266. Mr. RWE GASIRA reminded him that the criterion applied for determining the eligibility for the Fund resources was based on the gross national per capita income. For ADF-V, the countries had been grouped into three categories - A, B and C.

267. Category A1 countries constituted the poorest group with 28 member countries whose GNP per capita was equal to or below 350 dollars.

268. Category A2 was made up of 6 countries whose GNP ranged from 351 to 510 dollars.

269. Category B consisted of 9 members whose GNP varied between 511 and 990 US dollars; while Category C countries with GNP above 990 US dollars were not eligible for ADF resources.

270. For instance, Nigeria which formed part of the Category B countries saw its gross national product fall to 290 dollars and thus joined the Category A1 group. But given that the country's population constituted half of that of the entire category B, its presence would have a definite impact on the group.

271. The CO-ORDINATOR wanted to know in which category Namibia would be when it became a member of the Bank and which countries were category A that did not borrow from IDA or Category B countries that borrowed from IDA.

272. Mr. **RWEGASIRA** replied that after becoming a member of the Bank, Namibia would be classified among the Category C group; Senegal and Cape Verde, which were Category B countries borrowed from IDA, while Nigeria fell into the Category A1.

273. After those explanations, the **CO-ORDINATOR** wished to know the viewpoints of participants on the eligibility criteria established on the basis of per capita income as well as the treatment to be given to Nigeria which passed to Category A1.

274. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** thought that to have reasonable discussion on the eligibility criteria, it was necessary to discuss first the amount of allocations.

275. The **REPRESENTATIVE OF UNITED KINGDOM**, for his part, was of the opinion that before a definite position was adopted, it would be useful to have a table indicating the groupings on the basis of data covering the years 1986/1988 in order to know the implications and impact of the proposals on minimal amounts.

276. Concerning Category B countries which borrowed from IDA, he requested that the 10% allocation given to the category be maintained, a slight change could obviously be made thereon if the group membership increased.

277. The **REPRESENTATIVE OF DENMARK** was of the same opinion as the Representative of the United States of America and pointed out that it would be difficult to define a position on eligibility criterion without first discussing the amount of allocations.

278. He did not think that the return of Nigeria now to Category A1 could have any impact on IDA-9; on the contrary, the problem was different as far as the Fund was concerned. The change in category would enable Nigeria to receive substantial allocations to the detriment of other countries of the group.

279. He would like to have figures on the impact of the presence of Nigeria in Category A1.

280. The **REPRESENTATIVE OF BELGIUM** envisaged three formulas for establishing eligibility among countries, namely :

- eligibility situation within ADF-V;
- eligibility within IDA following the 9th Replenishment negotiation;
- list of eligible countries for the special programme of Assistance to Africa.

281. He thought that a special attention and treatment should be accorded Nigeria whose economic situation had in effect deteriorated.

282. The **CO-ORDINATOR** therefore requested Management to prepare for the following day's meeting a table determining the eligibility of countries for ADF-V and the impact of the various figures on SAP. He would like to know if the country allocation criterion should be retained and what would be the determining factor for such allocations.

283. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** held the view that it was necessary to base the Fund lendings on the programmes and the results achieved in countries instead of relying on objectives set. He therefore suggested that performance be also taken into account in order that the best quality projects in whichever member country, could have priority borrowing rights to ADF resources.

284. The **REPRESENTATIVE OF NETHERLANDS** supported the American approach which aimed at linking eligibility to performance criterion.

285. The **REPRESENTATIVE OF THE UNITED KINGDOM** thought that the Fund resources allocation formula currently applied was mechanical and supported the proposal of the United States of America. He, therefore, held the view that the idea of using country performance as a resources allocation criterion should be carefully considered.

286. The **CO-ORDINATOR** considered the suggestion clearly relevant for policy-based loans but bearing in mind the general practice of donors it would not be desirable to apply an on/off procedure for all Fund resources.

287. The **REPRESENTATIVE OF THE UNITED KINGDOM** observed that structural adjustment would only be an element in the eligibility process but that it would also be necessary to strengthen social projects; a general classification should cover all categories of loans and not only sectoral adjustment loans.

288. The **REPRESENTATIVE OF JAPAN** was also of the opinion that a rigid allocation based solely on per capita income was not suitable and was in favour of the search for other criteria.

289. He expressed his strong reluctance in allocating the Fund resources to Category C countries, and stressed that account should be taken of the eligibility criteria of both other multilateral and bilateral institutions.

290. The **REPRESENTATIVE OF ITALY** said that the criteria used under ADF-V should be maintained.

291. He requested that a special status be accorded to Nigeria, in view of its weight in the Bank and that suitable criteria be used if it should benefit from the Fund resources.

292. The **REPRESENTATIVE OF CANADA** subscribed to the views expressed by some speakers particularly on the use of country performance as a resource allocation criterion.

293. She shared the view of the Japanese Representative that Category C countries should not be eligible for Fund financing.

294. She thought that in opening up all membership in the Bank, the distinction between Bank and Fund resources would be lost.

295. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** was of the opinion that the importance of the country performance as a criterion for resource allocation needed to be further stressed.

296. Concerning access of Category C countries to Technical Assistance Fund in the form of grant, he thought that the Fund resources should be made available to the poorest countries only.

297. He wondered whether factors such as GNP per capita and poverty should be considered to be important criteria for the allocation of resources, like IDA and what role they should play.

298. The **REPRESENTATIVE OF NORWAY** pointed out that the general proposals of ADF-VI continued to favour Category A and B countries.

299. While admitting that the prevailing system of resource allocation was rigid, he thought that it constituted some protection for the sharing of resources for countries eligible for ADF.

300. In his opinion, the performance criteria should not be instituted, and the Fund should continue to use the current criteria which could eventually be rectified, taking account of other criteria like countries indebtedness.

301. The **REPRESENTATIVE OF FRANCE** noted that several problems had assumed new proportions especially those posed by the debt of medium-income countries and those arising from the arrears owed to the Bank Group by the poorest countries. It was therefore difficult for the Group to know the direction to take with regard to the criteria on country eligibility and country allocation when the general direction to be defined on resource allocation under ADF-VI was not known.

302. Regarding the resource blending policy, she said it would also be difficult to come out with a definite answer on the treatment which France might give to Category C countries in respect of loans, general assistance or technical assistance. She observed that it would be necessary at that stage to recall that as far as France was concerned, the ADF window still remained the aid window for the poorest countries. That explained why the prospect of formulating, within the Bank Group, a dynamic and substantial resource blending policy was a mere secondary issue.

303. Concluding, she stated that her country would tow a relatively conservative line which would take account of the need to avoid a fundamental change in the eligibility and allocation criteria.

304. The **CO-ORDINATOR** suggested that the Deputies now focus their remarks on the resource blending policy for the poorest countries.

305. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** observed that it was necessary to concentrate on the Category A countries, which should be granted only ADF resources. He explained that it would not be prudent to grant them ADB loans, considering the volume of their debt. In the long-term, a policy on the blending of resources would benefit neither the Institution nor the countries concerned. In the current state of affairs, it was imperative that those countries received only concessional loans.

306. Turning to the country performance criterion, he pointed out that the idea was not new, since it had already been the subject of lengthy discussions during ADF-V negotiations. He wanted further details on the allocation of resources for the current financial year.

307. Vice-President GEDAMU agreed that the performance criterion had been discussed at length during the ADF-V and GCI-IV negotiations. On those two occasions, Management had explained that it was difficult for it at that time to work out specific and rigid performance criteria in the allocation of resources even though the Institution and the borrowing member countries generally gave preference to projects with high returns.

308. At the end of the discussion, the performance criterion was considered to be one of the key factors for the allocation of ADF resources. Management did not lose sight of that criterion, although the fact still remained that it was not quantified. However, the Vice-President assured the Deputies that their recommendation on the allocation of resources to countries and the Institution's lending programme had been kept in view during the exercise.

309. Indeed, the initiative taken by the Bank in the area of policy-based loans could be considered a response to the need to take account of performance in the allocation of resources. Thus, Vice-President GEDAMU pointed out that 20% of the resources of the ADF went into the Special Programme of Assistance to Africa (SPA) initiated by the World Bank, in addition to the existence in the programme of stringent eligibility criteria based on performance. A good portion of ADF resources was allocated to countries which obtained good results in their economic recovery efforts.

310. He also indicated that performance had to be seen at the project level. The extent to which countries managed their projects, the regular repayments of their loans etc., were some of the criteria which should be considered when judging performance.

311. He proposed that the Bank prepare an explanatory note on the criteria in question in due course before any decision could be taken on the exact procedure for determining the weighting to be given to performance under the ADF-VI programme. For the time being, the existing criteria would serve as a basis for the allocation of resources. Management would later come back to the issue for a thorough discussion.

312. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** replied that the sectoral allocation linked to project viability and performance should be tackled under the EPCPs. If certain sectors in a country were not performing well, the Bank should work out the necessary strategies for the areas concerned to have access to funding.

313. As regards the performance factor, he said that it was of fundamental importance within the framework of the replenishment exercise. Rigid or semi-indicative objectives could result in inferior quality loans and projects with mediocre returns.

314. The **CO-ORDINATOR** reiterated Management's remarks that policy-based loans were allocated on the basis of performance. He added that even the World Bank operated a lending programme for countries with mediocre results. He observed that in working out the eligibility criterion, one should not lose sight of the need for some element of equity, and that although the practice of concentrating resources on the same countries was disquieting, it would be wrong to think that it was an easy task to make, a priori, fair and equal allocations to all.

315. He called upon the Deputies to strike some sort of balance on the issue by attempting to reconcile viewpoints.

316. The **REPRESENTATIVE OF CANADA** stressed that the combat against poverty should continue to be one of the Fund's main areas of operation. On multi-sectoral projects, it would be useful to have detailed information on the approach which the Fund intended to adopt for increased productivity, particularly with regard to assistance to the poorest countries. Canada would consider not only the poorest countries but also the underprivileged ones among the less poor, depending on the availability of funds.

317. As far as the blending of resources was concerned, it would be advisable to envisage various instruments for various groups of countries.

318. The Representative of Canada acknowledged also that there was difficulty in defining the precise limits of performance criteria. She noted that there was a difference between country and project performance. If one were to go by hard-and-fast criteria, one could be led to abandoning a viable project in a country facing performance problems. That was why it was necessary to treat the performance criterion with flexibility. The emphasis should be more on performing projects and it was there that a middle course should be found.

319. The CO-ORDINATOR, summing up the preliminary exchange of views, noted that there had been a consensus on what the ADF's role should be, namely, that of serving as an instrument for scaling down the effects of poverty on the most underprivileged countries. For some State Participants, that constituted the starting as well as the finishing-points of the whole affair. For some other countries, on the other hand, the resources of the ADF should not necessarily go to the poorest countries alone but also to certain relatively underprivileged countries among the less poor, depending on the availability of resources. However, the point on poverty alleviation would be the barometer for determining the effective utilization of the Fund's resources.

320. He also noted a common willingness to maintain the present country categories though they should be updated in view of the prevailing conditions. The possibility of finding additional resources from other multilateral institutions should also be explored. Management had promised to provide additional information on that issue the following day.

321. There was also a consensus on the need to concentrate efforts on Category A countries to prevent them from turning to the ADB window for traditional project financing. With regard to blending of resources for medium income countries, an in-depth discussion would be necessary after the level of replenishment would have been determined.

322. The issue of performance had been discussed at great length and there seemed to be a tendency to widen the concept. Management would provide additional information on that subject.

323. The Co-ordinator further noted the willingness to envisage various instruments for different groups of countries.

324. Management's approach to the issue of eligibility for policy-based loans was based on country performance in keeping with the provisions of the first phase of the Special Programme of Assistance to Africa.

325. Concerning the Technical Assistance Fund, he noted that there were strong objections to the proposal to give technical assistance resources to "Category C" countries in the form of grants; discussions on that issue, however, were not concluded.

The sitting rose at 7.20 p.m.

SATURDAY, 1 JUNE 1990 - 9.20 A.M.

CONSIDERATION OF A PROPOSAL FOR THE SIXTH REPLENISHMENT OF RESOURCES (ADF-VI/CM/90/01) (agenda item 4)

326. The **CO-ORDINATOR**, concluding his previous day's summary recalled that a consensus had been reached that if the Federal Republic of Nigeria was to be included in the A Group as a result of the change in its GNP and other statistics then the matter would have to be considered separately and specially.

327. Coming to the work programme for the day, he suggested that the Deputies focus attention on cross-sectoral and sectoral issues, the definition of policy-based lending and the composition and nature of the technical assistance facility. Other issues that could be addressed later in the day included the consideration of the mathematical calculations in the various scenarios contained in Management's proposals as well as the financial management issues including cost-sharing, poverty alleviation and women in development.

328. The **REPRESENTATIVE OF THE UNITED KINGDOM** said that the issues of poverty alleviation, women in development and population were extremely important and that, in fact, a lot of emphasis had been laid on them during the previous replenishment negotiations. Details from the discussions on the GCI-IV mid-term review and the consideration of the previous day of the mid-term review of the Fund clearly demonstrated that the Bank, despite its awareness of the importance of those issues, had, to date, failed to operationalize the relevant recommendations put forward by the Deputies. He therefore wanted to know how Management intended to implement those recommendations and when.

329. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** shared the concern expressed by the UK delegate about the apparent lack of progress in operationalizing the priority concept of poverty alleviation. The concept, being one of the essential concerns of the Bank Group, could be operationalized through an effective use of the EPCPs which were strategic guiding documents for the institution. By so doing, the recipient countries together with the Bank Group could determine the priority projects that should be implemented to enhance poverty alleviation, environmental protection or women in development. However, a co-ordinated approach to those issues appeared to be lacking on the part of the Bank. Concluding, he suggested that Management make a poverty alleviation impact analysis for each project or policy-based lending financed by the Bank Group.

330. The **REPRESENTATIVE OF ITALY** said that the World Bank had recently published a world development report concerning mainly poverty alleviation and proposed that Management draw inspiration from it to update paragraph 3.3.21 to 3.3.29 of the working document against the subsequent replenishment meeting.

331. The **CO-ORDINATOR** explained that the relevant document he had recently read seemed to suggest that if one wanted to tackle poverty in a systematic way, one had to consider particularly certain aspects of various sectors and give them some amount of priority. He had in mind areas such as basic education which, incidentally, was the subject for discussion at the Bangkok Conference.

332. Improved primary health care was also a key solution to the problem of poverty. Another element which had figured prominently in bilateral and multilateral discussions was the weight to be given to adjustment reform programmes with the support of donors for those elements which would boost services rendered directly to the poor while at the same time giving them opportunity to fully utilize their entrepreneurial skills.

333. The document to be considered concentrated on some cardinal issues, namely, the environmental protection, development of services of utmost relevance to the poor and development of projects that would have a direct impact on specific groups. He invited the Deputies to address the above components as priority areas under ADF-VI.

334. The **REPRESENTATIVE OF SWEDEN** agreed with the Co-ordinator that basic education and primary health care were of utmost relevance to poverty alleviation but also felt that family planning and employment programmes should be included in that category. The Bank Group could however use basic education and primary health care as a starting point for combating poverty in borrowing member countries.

335. The **CO-ORDINATOR** replied that in relation to direct projects and employment opportunities, it was not that women suffered from unemployment but rather that they had far too much to do. Nevertheless, he agreed with the Swedish delegate that some projects would have direct beneficial effects on specific target groups including women and that the Bank Group should devote its resources to them.

336. The **REPRESENTATIVE OF FINLAND** said that the problem of poverty alleviation was of concern to all State Participants. In fact, much had been said about the issue and what was now required was a well planned strategy to render the concept operational. As stated by the the Co-ordinator and the Swedish delegate, basic education and primary health care

could be considered as appropriate starting points. She had participated in the conference on Education for All where practical recommendations had been made for implementation in developing countries. She recalled that representatives from Africa including the ADB, contributed effectively towards the preparation of the conference. The Bank should therefore provide the Deputies with additional information on how the ADB Group and various African Governments intended to make the declaration operational.

337. A lot was being done in the area of primary health care but regional member countries themselves should be encouraged to put in additional efforts such as improving health facilities in rural areas. The obvious problem would be in connection with the availability of trained human resources to implement the programmes. A co-ordinated approach involving various multilateral agencies would therefore be required in order to achieve concrete results.

338. The reference made to family planning in the working document submitted by Management was very generalized and one could not see how the relevant paragraphs could be made operational from the point of view of the Bank Group's activities. She would therefore like to have additional information on the matter. Furthermore, she did not see the need to establish a Special Fund to finance population-related programmes as they could be integrated in the normal activities of the Bank Group. Concluding, she wondered to what extent the Bank staff was equipped to analyse human resource development issues in the fields of education, primary health care and population.

339. The **CO-ORDINATOR** in response to some of the points raised by the delegate from Finland, drew attention to the fact that Management was in the process of reviewing the Bank Group's education policy paper in the light of the conclusions reached at the Bangkok Conference. The Deputies could also invite Management to similarly review the health policy paper on the basis of the outcome of the current discussion on primary health care.

340. As regards the problem of poverty alleviation, he appealed to Deputies to make proposals that could be of assistance to the Bank in developing its own strategy.

341. The **REPRESENTATIVE OF BELGIUM** observed that poverty alleviation was the main objective of his country's bilateral assistance programme and he felt that it should equally be a guiding principle for the Fund's operations in subsequent years.

342. Poverty alleviation formed part of the cardinal objective of adjustment programmes in Africa and elsewhere and was supported by specialized agencies in that domain. He pointed out that poverty alleviation was a wide concept and therefore affected many areas including food security, basic education, primary health care, factors of population, employment and income. The notion was so extensive that it was necessary to focus it in order to be operational. It was therefore the responsibility of the Bank Group to develop appropriate strategies to combat poverty in African countries. To achieve that, two major problems should be tackled, namely, high population growth and environmental protection.

343. The REPRESENTATIVE OF CANADA recalled having said the previous day that the Bank Group should move away from narrow sectoral targets to a cross-sectoral strategic approach which was very consistent with poverty alleviation, human resources development and sustainable economic and environmental development.

344. In terms of poverty alleviation, she would encourage the Fund to go further than it had done in the past. To start with, she did not understand why Management should wait until the end of the first year of ADF-VI to prepare an action programme. She urged that the document be submitted to the Deputies during the course of the current negotiations and that it should make a case for the importance of sound economic policies in the combat against poverty, increased investment in the rural sector and tackle the problem of rapid population growth and employment in the rural sector. It was appropriate to note that to alleviate poverty, there should be an increase in productivity of the poor - an element which had been omitted from the document submitted by Management, thus creating the impression that Management envisaged a welfare approach to the problem and not that of economic productivity.

345. With regard to human resources development, she agreed with her colleagues who were recommending investments in the human sector. It was interesting to note that the same components were key factors in dealing with the problem, namely, education, population, women in development and health.

346. As far as population was concerned, she called upon her colleagues to take advantage of the fact that the Bank Group's regional Governors made very courageous statements in that regard at the recent Annual Meetings. The Fund's Deputies should therefore think over appropriate assistance to satisfy the aspirations of those Governors.

347. Coming to sustainable economic development, she pointed out that the issue was interlinked with those she had addressed earlier. She agreed with the Belgian delegate that there was a close link between poverty and environment.

348. To sum up, she said that Management had put forward a very strong case for the urgent need to tackle Africa's major problems. It would therefore be fair on the part of the Deputies to ask Management in return to spell out the Bank's professional strategies on those issues.

349. The **REPRESENTATIVE OF THE NETHERLANDS** said that poverty alleviation should be the Fund's main objective and that he supported the emphasis laid thereon in Management's document. However, he regretted that the document did not put forward adequate operational proposals for resolving the problem. Management should therefore provide guidelines on the Bank Group's operational initiatives for consideration during the current negotiations. He recalled having already established the link between poverty alleviation, sectoral allocation and the mid-term review. The lessons drawn from the mid-term review implied that particular emphasis should be laid on investment in the agricultural sector, education and primary health care. In fact, experience has shown that agricultural projects played a very crucial role in generating employment and alleviating poverty in general.

350. Furthermore, given the recent focus of the Fund on policy-based lending and the need to tackle the social implications of structural adjustment, related projects should be financed within the range of the resource percentage earmarked for them.

351. The **CO-ORDINATOR** observed that it would not be advisable for the Fund to engage in policy-based lending alone. What was really required was an international consensus developed largely within the SPA-2 process which would highlight, in particular, the various areas mentioned by delegates. The idea was fully developed in the World Bank document, excerpts of which were distributed to participants at the beginning of the meeting. The Bank's representatives at the subsequent SPA-2 meeting should take note of that point because it was the view of the donor community. Every donor or multilateral agency was concerned about poverty alleviation and strategies were evolving. Management should therefore submit a document at the next meeting on how it intended to deal with the various issues that had been raised.

352. The **REPRESENTATIVE OF FRANCE** agreed with those who felt that one of the effective ways of dealing with the problem of poverty was an integrated sectoral approach. An increase in the resources to be allocated to the social sectors would therefore be required. The Deputies could even go a step further to examine the specific aspects of some social sectors that were particularly relevant to poverty alleviation such as primary health care with a view to allocating an appreciable amount of funds.

353. With regard to population, the Deputies could indicate their concern about the rapid population growth in regional member countries, particularly since most regional Governors made reference to it in their statements at the recent Annual Meetings. She recommended that account be taken of the policy on population in health programmes.

354. In the area of structural and sectoral adjustment, the consensus was that the operation and accompanying social measures required substantial investments and that the Bank Group should therefore co-ordinate its efforts with other international organizations.

355. Coming back to poverty alleviation and the related action programme to be drawn up, she emphasized the need to focus the various strategies proposed so that the end result would be an approach which would be consistent with traditional Bank Group interventions. That would also enable Management to integrate the new objectives into the Bank Group financed projects.

356. The **REPRESENTATIVE OF NORWAY**, commenting on the discussion, observed that the main emphasis was on project quality and the integrated aspect of Bank Group operations. Nevertheless, sight should not be lost of other important issues such as environmental protection, women in development and poverty alleviation. Credit should be given to Management for efforts made in the areas of the environment and women in development in spite of the fact that they were relatively new areas of operation for the Bank Group. The Deputies were now to take the crucial decision as to whether the concrete actions envisaged by Management should be integrated into the institution's operational activities.

357. Poverty alleviation was a very new concept to all institutions including the ADB. He was however very pleased with the relevant proposals contained in the working documents.

358. He disagreed with the suggestion to establish a Special Fund for women in development programme since it could be integrated into the normal activities of the Fund.

359. The World Bank report on long-term perspectives for Africa and the discussions in the IDA were very relevant to poverty alleviation efforts and the UNDP report on the issue would soon be out. These were indicative of the fact that the issue was gaining momentum and that the ADB should be involved in the exercise. In that regard, he supported the proposal made by Canada that Management submit a document on the strategies envisaged by the Bank Group in order to guide Deputies in the negotiations.

360. Concluding, he requested Management to submit a document on women in development and environmental protection spelling out the Bank Group's plans and strategies thereon.

361. The REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY recalled having expressed concern the previous day about the fact that the Fund had not attained the recommended targets in some sectors under the ADF-V. In his view, more attention should be paid to three inter-linked items, namely, the protection of the environment, population and poverty alleviation. Although the three did not have immediate financial and economic rates of return, investments in these sectors could turn out to be very successful in the medium and long-term. He endorsed the Canadian delegate's observation that rather than adopting a welfare approach to the problem of poverty, efforts should be made to increase productivity, particularly through the active participation of the target groups.

362. The CO-ORDINATOR was of the view that one of the issues to be considered was whether the various mechanisms of technical assistance could be used to encourage projects aimed at alleviating the poverty of the most under-privileged groups.

363. The REPRESENTATIVE OF THE UNITED STATES OF AMERICA pointed out that Management should make use of Canada's proposal, supported by many Deputies, in preparing a report for the subsequent meeting scheduled for September. The report should tackle the problem of poverty alleviation, an issue which was likely to receive American Congress' support for subscription to the ADF.

He suggested that the document treat items related to :

- strengthening human resources with a view to poverty alleviation (nutrition, primary health care, health etc);
- revenue generating activities with a view to helping the poor to become more productive and dynamic;
- women in development.

365. Though not subscribing to the setting up of a special fund for women in development, he endorsed Norway's request that a document on the issue and on the environment should be prepared in order to determine the contributions to be made to ADF-VI.

366. The **REPRESENTATIVE OF THE UNITED KINGDOM** shared the views expressed by the previous speakers.

367. He believed that it was necessary to rationalize the various institutions with a view to rendering them more efficient, rather than advocate new initiatives.

368. In conclusion, he supported the observations made on the proposals contained in the document and thought that priority should be given to the various issues highlighted.

369. The **CO-ORDINATOR** pointed out that the need to rationalize regional institutions was emphasized in the document presented during the previous conference. He called on the experts to take account thereof in the work to be undertaken in the coming months.

370. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** was of the view that the issue of poverty should be approached within the global context of the problem of resources and that performance should only be stressed with a view to alleviating its burden.

371. The **REPRESENTATIVE OF CANADA**, speaking on the difficulties that governments encountered in managing projects, expressed the view that the Fund's Management should prepare a document on the appropriate approach to the difficult choice that governments had to make within the framework of structural adjustment measures, and offer them relevant suggestions.

372. The **REPRESENTATIVE OF ITALY** wanted clarification on paragraph 3.3.21, sub-paragraph (v) of the document which stated that : "widespread lack of access to physical assets (land, tools and equipment) which, in conjunction with inadequate health care and education preclude the great majority of Africans from earning acceptable incomes and increasing their own and society's welfare".

373. The **REPRESENTATIVE OF PORTUGAL** pointed out that the mid-term review report on ADF-V had already dealt with poverty alleviation. What was left, at present, was to know in what way the problem could be integrated into the draft as approved under ADF-V, and to see how far its objectives had been attained.

374. The **CO-ORDINATOR** felt that the issue could be incorporated into the guidelines on ADF-VI in line with the previous day's discussions.

375. Summarizing the discussions, he noted the following points from the deliberations :

- (1) poverty alleviation constituted a cardinal element;
- (2) the environmental aspect affected all Fund operations and was taken into account in policy-based loans;
- (3) interest had been shown in the social dimension of adjustment programmes, and the support the international community could give in this context to basic services, such as primary health care, which could inhibit social dissension, make adjustment more sustainable, and protect the position of the most disadvantaged groups;
- (4) participants had also shown interest in stressing basic education and primary health care more widely in the regular operations of the Fund;
- (5) There had also been stress on activities to improve the productivity and income generation capacity of the poor;
- (6) but the Bank Group lacked certain skills and staff to tackle these issues comprehensively and it would be helpful if an analysis of the positions required, the priorities and the financial implications could be available perhaps for the September meeting;
- (7) some Deputies were not in favour of the establishment of a fund for the women in development programme and had requested an explanatory document thereon;
- (8) it was suggested that the social implications of poverty alleviation be studied. The need to co-ordinate the Fund's activities and those of other international organizations had also been underscored;
- (9) finally, on economic integration, emphasis had been laid on the need to rationalize the activities of the various institutions.

376. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** recalled that the point on poverty alleviation within the framework of a programme aimed at helping the poorest to become more effective had been omitted.

377. The **CO-ORDINATOR** thanked the previous speaker for the reminder and called on Management to address the points raised.

378. Vice-President **GEDAMU** stated that concerning poverty alleviation, paragraph 3.3.39 (page 42) highlighted the approach outlined by the experts. A working group had been set up and would be responsible for work on the action programme. Moreover, preliminary discussions had already started.

379. He went further to state that programmes to be drawn up on poverty would be integrated into the Bank's ordinary operations and would form an integral part of the Fund's activities; that it was not intended to create a separate structure or fund for poverty alleviation. The Bank intended to draw up a programme in close collaboration with the donors and borrowing member countries.

380. In response to the concern expressed regarding the need to obtain information on the issue expeditiously, he informed the delegates that Management planned to submit the programme during the first year of ADF-VI operations in view of consultations that would be held with donors. Nevertheless, a preliminary document on the issues raised, including the one on women's role in development, could be submitted to the Deputies in September. Sub-paragraph (v) of paragraph 3.3.21 would be made more explicit in the final document.

381. The **CO-ORDINATOR** stated that the document should review all the issues raised, such as the environment, women's role in development and poverty alleviation.

382. Mr. **NKODO** (ADB) reassured the Deputies that all the new orientations would be integrated into the Bank's activities.

383. He pointed out that the project on women's role in development did not come from Management but was part of a study financed by the USAID; the project did not form part of recommendations made during the meeting.

384. Mr. **MERGHOU** (ADB), speaking along the same lines, stated that Management, without drawing up any programme of special action, had been working for several years on the issue of poverty alleviation and had intervened in all sectors in that same area by granting policy-based loans.

385. In that regard, he stated that the working group set up by the Bank would draw up a programme of action against poverty and would ensure that during operational discussions with governments, the assistance given to those countries would help them resolve the issues raised.

386. Mr. RWE GASIRA added that, with regard to integration, the results of previous operational programmes from 1982 to 1987 had rather been disappointing. Recently, however, the Sahel Club had offered to finance a unit that would be created within the ADB with a view to highlighting the operational sense of economic integration. Management would submit a document on that issue.

387. The CO-ORDINATOR did not see the need to submit a document on economic integration since State Participants had other priorities.

388. The REPRESENTATIVE OF FRANCE recalled that as part of the deliberations on the programme of action, it had been proposed that an outline of the programme should be submitted to the Board of Directors before the September meeting. She felt that it would be necessary to know about the Bank's general orientations on population in good time.

389. The CO-ORDINATOR wanted to know what measures Management had adopted on population.

390. Vice-President GEDAMU answered that discussions on the subject were at a preliminary stage. Note had, however, been taken of all the points raised and those would be taken into consideration in preparing up the final document.

391. The CO-ORDINATOR submitted for Deputies' consideration the issue of sectoral allocation and proposed that discussions centre on the orientation to be given to policy-based loans within the framework of ADF-VI, i.e. whether such loans should be sectoral adjustment rather than structural adjustment loans.

392. The REPRESENTATIVE OF THE NETHERLANDS, on the issue of sectoral allocation, emphasized the fact that since, in his estimation, agriculture was the prime mover of development in African countries, he contested the validity of Management's argument for a reduction of the share set aside for that sector. Agriculture should remain a priority sector while it would be advisable to reduce the share allocated to industrial and public utilities sectors which were not priority areas.

393. Concerning the issue raised on policy-based loans, he pointed out that the World Bank which began such operations in 1980 had gradually realized that sectoral adjustment loans were much more appropriate and more profitable to the countries concerned. Nevertheless, he accepted that adjustment programmes should begin with macro-economic adjustments with serious thought given to sectoral adjustment programmes. In view of the World Bank's experience in that area, emphasis should be laid on sectoral adjustment loans within the framework of the ADF.

394. The **REPRESENTATIVE OF DENMARK** shared the views expressed by the representative of Netherland on agriculture which should be the guiding principle behind the Fund's work programme on poverty alleviation. Consequently, he deplored the proposed reduction of the share for that priority sector from 40 to 30%.

395. Concerning other sectors, the social sector should be strengthened, while the share allocated to the transport and public utilities sectors should be scaled down. With regard to policy-based loans, he was rather reluctant about changing the present level as proposed in paragraph 4.2.15 of the ADF-VI document. He agreed with the previous speaker that emphasis should be laid on sectoral adjustment loans.

396. The **REPRESENTATIVE OF CANADA** pointed out that there were differences in figures in his documentation particularly on percentages figuring in the table on the agricultural sector. He requested clarifications thereon.

397. Mr. **NKODO (ADB)** explained that table 5.1 on page 55 of the French version and page 49 of the English version of the document was a summary of ADF-VI work programme per sector. The table indicated the volume of operations on the basis of which Management would work to attain the objectives outlined in paragraph 4.2.2 of the document (page 48 in the French version, page 43 in the English version). The proposed share for the agricultural sector under ADF-VI was 30%.

398. In paragraph 4.2.4 of the document (page 49 in the French version, page 44 in the English version), it was stated that the share for the transport and social sectors would be 20% for each sector.

399. Paragraph 4.2.11 (page 51 in the French version, page 46 in the English version) showed the share that would be allocated to public utilities projects, i.e. 18%. On the same page (paragraph 4.2.12) the industrial sector would take a 12% share of the resources. It was advisable to refer to the entire document and not only to the tables which were in fact summaries of the work programme.

400. The **REPRESENTATIVE OF CANADA** stressed that that confusion amply illustrated the difficulty in determining the objectives from a strict sub-division by sector. To tackle the issue, it would be better to adopt a less restrictive approach. In reality, the agricultural sector could encompass several other sectors: a rural road construction project could fall under the agricultural or transport sector. Her constituency preferred that the most substantial share be allocated to the agricultural sector and more than 20% to the social sector.

401. The other three sectors (industry, transport and public utilities) should be financed through the ADB window. The agricultural and social sectors should remain the Fund's sectoral priorities under ADF-VI.

402. With regard to policy-based loans, it was her delegation's view that the 20% level decided on at the end of discussions on ADF-V should be maintained. That percentage should also cover all quick disbursing loans.

403. The **REPRESENTATIVE OF THE UNITED KINGDOM** shared the views expressed by his Canadian colleague on the need for flexibility on sectoral allocation. Nevertheless, the largest amount of resources should, in his view, go to the agricultural sector. He welcomed the proposal made in the document on social infrastructure. As he had stressed during his intervention on country allocation the previous day, the first valuation criterion should be the efficient use of resources. His delegation would prefer that Management draw up solid country programmes rather than concentrate its efforts on a global sectoral allocation. If rigid allocation criteria were established, the resources would not be effectively utilized since Management would only try to attain an objective which, for several reasons, could be either unrealistic or inappropriate.

404. If amounts were to be fixed, it would be advisable to work on the basis of a series of ranges. For the moment, however, his delegation was of the view that the introduction of a solid and adequate country programming should be a priority.

405. On the issue of policy-based loans, he expressed the view that the needs of the countries concerned had to a large extent been taken into account in the Special Programme of Assistance to Africa. The Institution should be prudent in that area and continue to work in collaboration with the World Bank which had already drawn up an indicative list of structural and sectoral adjustment operations for the subsequent three years. The impression had been given

that in relation to policy-based loans, the Bank was usually called in to fill gaps. Management's reaction to that would be useful since it would help to determine whether the Institution should embark on sectoral or structural adjustment loans in the next three years.

406. The **REPRESENTATIVE OF BELGIUM** shared the views expressed by the Deputies from Canada and the United Kingdom. As a general remark, he pointed out that as replenishment exercises progressed, there was an increase in the number of criteria and parameters imposed. That conceptual framework which became increasingly sophisticated ended up constituting constraints and obstacles to achieving objectives. It would therefore be advisable to find an approach that could strike a balance between general principles and practical realities.

407. Concerning sectoral distribution in particular, priority should be given to the agricultural sector. In his statement to the Board of Governors, he had previously expressed concern about the fact that that priority sector, cardinal to Africa's development, encountered the highest amount of implementation difficulties. It was therefore necessary to broaden discussion on the difficulties encountered by the Bank Group in attaining fixed objectives in that sector. The 40% target, though desirable, was excessive. Consequently, the Institution would find it difficult to attain it.

408. His delegation saw the social sector as the second priority, though it also recognized the importance of the transport sector. On the other hand, the delegation was less convinced about the public utilities being the most appropriate sector for undertaking positive action in the struggle against poverty since projects in that sector could fail to have the desired social impact.

409. Concerning the industrial sector in general and private sector promotion in particular, the **REPRESENTATIVE OF BELGIUM** stressed that that was the future sector for Africa, though setting aside 12% of the resources for it was rather excessive. In the first place, it was essentially through adjustment measures, the restoration of a positive environment and macro-economic measures, that the Bank Group and multilateral development finance institutions could better help the continent to increase the contribution of the industrial and private sector to the development process.

410. There was need for an effective country programming in association with the proposal of operating on the basis of a series of ranges in order to leave a certain working margin.

411. The 20% share allocated for policy-based loans under ADF-V was appropriate and should be maintained for ADF-VI. It was also necessary to review the definition of operations and to determine whether they should form part of ADF interventions.

412. The CO-ORDINATOR drew Deputies' attention to the need not to totally exclude the public utilities sector. If the establishment of reliable and adequate drainage and potable water networks in rural areas was to be encouraged, the public utilities were essential both from the productive and utilitarian points of view. Public utilities helped to develop entrepreneurship and to create productive employment for the poorest sections of the population, particularly in the informal sector.

413. The REPRESENTATIVE OF NORWAY stressed that the agricultural sector remained a priority, as did the social sector whose proposed ratio in the document he wanted increased.

414. The issue of flexibility required further in-depth analysis since, in his view, the State Participants had contributed to the confusion on definitions. Percentages could be interpreted in various ways, e.g. targets to be reached, limits, ceilings, commitments or minimum demands. For that reason, it appeared to him that the recommendation to work on the basis of a series of ranges was not advisable. The proposal did not help to solve any of the issues at stake and left the discussions too open. He proposed that a minimum demand considered as a commitment be fixed. At the same time clear objectives should guide operations.

415. In relation to policy-based loans, considering all that had been done over the last three years, it was not very useful to explore whether they should be orientated towards structural or sectoral adjustment but rather to see how the adjustment process could be improved and directed towards the main objectives retained since the ultimate aim was to enable countries engaged therein to find a sustainable level of economic development and growth. The issue of adjustment loans comprised several dimensions and aspects. For that reason, the Norwegian delegation found it difficult to respond to it in a clear-cut manner.

416. The REPRESENTATIVE OF ITALY spoke against reducing the share allocated to the agricultural sector. He was aware of the problem of project congestion and would appreciate further explanations thereon. It would be useful to have a study on the relationship between the

allocation of resources to the agricultural sector and the physical allocation of land, i.e. a study on the possibility of making optimum use of co-operatives and other social organizations in sharing out those resources. The explanations were very important since making the best use of land could constitute an effective way of fighting poverty.

417. The **CO-ORDINATOR** pointed out that the point was in part related to the structure of traditional projects and to other issues such as the distribution of inputs. Actually, when an institution financed policy-based loans, it probably funded operations like the importation and distribution of fertilizers to several operators and not only to governments. The issue was difficult to appraise a priori; Management would certainly highlight its approach.

418. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** endorsed the views expressed by the Deputies from Canada, the United Kingdom and Belgium on sectoral allocation. The objectives should not be rigid but indicative so as to leave a certain working margin. The Bank should focus attention on problems that individual countries encountered in following the established priorities. To do that, it should spare no effort in improving the EPCPs.

419. On the issue of policy-based loans, it was in the Fund's best interest to limit its intervention to sectoral adjustment loans.

420. The proposal to fund particular tranches of investment programmes was interesting and merited exhaustive consideration. Several donors were of the view that, with the proliferation of projects and donors to Africa, it was becoming increasingly difficult to implement projects.

421. The **REPRESENTATIVE OF FINLAND** argued that the allocation of resources to the agricultural sector was a multi-faceted issue. Several activities could come under agriculture whereas it was also difficult to exclude others. The lack of statistics on the sector was a sure handicap. Consequently, it was difficult to determine the appropriate percentage of resources to allocate to it. Several problems related to the agricultural sector were also linked to the social sector, and it was difficult to determine the line of demarcation between the two sectors. Nevertheless, priority should be given to the agricultural sector in its entirety and a more substantial share should be allocated to the social sector.

422. Concerning policy-based loans, she was also of the view that the 20% level should be maintained. She shared Norway's views that much had been done in that area over the last three years and that the issue should no longer be raised in structural or sectoral adjustment terms but rather in terms of what was economically feasible and was capable of bringing about economic progress to the beneficiary countries.

423. The **CO-ORDINATOR** asserted that all those elements were not mutually exclusive; in fact if minimum indicative objectives were fixed and the policy-based loans element was set aside, it would be almost impossible to make calculations on the various sectoral allocations. If, on the other hand, it was decided to lay emphasis on sectoral allocation, that would have an impact on the distribution of inter-sectoral ratios. Consequently, he called on his colleagues to provide clearer orientations to avoid being in a vicious circle in which it would be impossible to make any decision.

424. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** stated that his constituency attached great importance to the agricultural sector. He wondered why the target set for agriculture under ADF-V could not be attained. Referring to Management's explanation that priorities fixed by recipient countries were taken into account, he wondered whether such countries intended to turn to other sources of finance for their agricultural projects.

425. Like the Netherlands, he hoped that savings could be made in the industrial and public utilities sectors.

426. Concerning policy-based loans, he supported Canada's observations that the 20% ratio should be maintained and should include all quick-disbursing loans. In his view, the Fund should limit its intervention in this area to sectoral adjustment loans as was the case with the Asian Development Bank.

427. The effective use of resources should be the key to that exercise while the EPCP should be the basis of operations. The issue of financing by fixed tranches should be thoroughly studied at a later stage.

428. The **REPRESENTATIVE OF FRANCE** associated herself with the consensus expressed on maintaining the agricultural sector as a top priority. It was obvious that the dependence of most African countries on raw materials still constituted a handicap to their future development. Reduced to 30%, the share allocated for agriculture would be a bad signal in that respect.

429. A wider consensus should be reached on self-sufficiency in food which was an essential component in poverty alleviation. The population issues raised also needed to be resolved if they were not to constitute an obstacle to development. She reiterated France's position that priority should be given to the agricultural sector and that the 40% ratio should be maintained.

430. She wished to have the proposed share to the public utilities and industrial sectors scaled down and approved the proposed readjustment between the transport and social sectors.

431. On the issue of policy-based loans, with the financing needs of the second phase of the Special Programme of Assistance to Africa in mind, it would be advisable to authorize the ADF to set aside a range of 20% to 25% of its resources without deciding at that stage on the allocation for sectoral or structural adjustment loans for reasons highlighted by various speakers in general, and the speaker from Finland in particular.

432. If all the figures were added up, the total would without doubt be more than 100% underscoring the need to exercise some flexibility rather than scale down on the most desirable targets, particularly those in the agricultural sector.

433. Mr. MERGHOUB (ADB) said that in its presentation Management had wanted to emphasize country programming performance and efficiency. In analysing the target set by the Deputies under the ADF-V, Management had thought that those targets were somewhat too rigid since they were expected to be attained no matter the prevailing circumstances.

434. Management had therefore given reasons to justify the results achieved so far, taking into account specific investment programmes of respective countries. For ADF-VI and especially for the agricultural sector Management had followed the recommendations of the Long Term Perspective Study (LTPS) prepared by the World Bank.

435. He then drew attention to the LTPS which had recommended that, with the exception of social sectors, 5 per cent of GDP should go to each sector of the economy. The agricultural sector, which was recognized as the motive force of development during the coming ten or fifteen years, would receive the same share, while the social sectors would get 11 per cent of GDP. He therefore felt that the scenarios presented in detail in the LTPS could not be ignored.

436. He believed that in intervening in borrowing countries, especially in SPA eligible countries with the policy-based lending instrument, certain macro-economic objectives and public investment programmes should be taken into consideration. Due to budget deficits some investments were pushed aside because they required heavy recurrent costs and even though they were considered to be good projects, they could not be included in investment programmes. This is especially the case for social sectors and the irrigation sub-sector.

437. That was why the problem of country programming should be given priority. Although Management believed that targets should be set and lending policies should be formulated, these are flexible guidelines that should be kept in mind and reflected upon when programming with individual governments.

438. He pointed out that a number of institutions accorded higher priority to agriculture, but the problem was how to identify good projects in the agricultural sector. The Fund co-operated in that area with specialized agencies such as IFAD, the FAO and others which were specialized in the agricultural sector.

439. As regards the ADF experience in the sectoral or the structural adjustment loans, as indicated in the proposal on the sixth replenishment of the Fund's resources, the institution's first approach was usually to start with the structural adjustment loans and then move into sectoral adjustment loans. The World Bank had adopted an identical approach in the sense that it had started with the structural adjustment and later moved into the sectoral adjustment. Macro-economic equilibrium and right price policies were a prerequisite to sectoral development.

440. With regard to the question of co-ordination with the World Bank, the Fund had established very close co-operation and co-ordination with the World Bank. There was no harm in ADB filling the gap because it worked on the same programme as these two institutions. Such a programme could not be achieved without proper financing that was brought by ADB contribution.

441. Moreover, these institutions co-ordinated their activities through the SPA. All the donors attending the SPA Conference and the Consultative Group meetings assess the jointly assisted programmes that are in place. Participants also exchange views on their respective lending programmes in the recipient countries.

442. The CO-ORDINATOR said that the essential points being addressed by State Participants were that Management should work with the World Bank, from the outset, in planning particular operations. It was important that policy-based lending operations should be timely and fully integrated into the World Bank's activities.

443. The REPRESENTATIVE OF THE NETHERLANDS noted that Mr. Merghoub had explained that country priorities should be taken into account. He fully agreed with that approach, but was inclined to believe that the Bank and the Fund should shoulder their own responsibilities.

444. He also observed that Mr. Merghoub had indicated that countries had given a certain amount of priority to agriculture.

445. He felt that due to adjustment programmes countries had had to cut down on their investment programmes. He wondered whether within the priorities of those countries there was a shift away from agriculture.

446. Mr. SARR, answering the question raised by the Representative of the Netherlands, explained that it was difficult to mention exactly what was happening in African countries because each country's experience was different. Some African countries had improved the share of public investments in the agricultural sector, while in other countries the share of their public investments in that sector had either stagnated or had been reduced considerably.

447. Following the declaration made by the African Heads of State in Addis Ababa in 1985, African countries were required to invest 25 per cent of their public investments in the agricultural sector.

448. Given that African countries had not been investing substantially in the agricultural sector, the 25 per cent target which was regarded as a minimum requirement had been set in order to encourage African countries to invest at least that level of their investments in the agricultural sector. In reality, they had not been able to attain that target.

449. Moreover, given that African countries were required to contribute up to 10 per cent to projects financed by the ADF and if an upper limit target should be set with the expectations that it would be attained by those countries in spite of the problem of providing counterpart funds in local currency which in itself was limited, he felt that there was bound to be a gap. That implied that the target set could not be attained in each of those countries.

450. The discussions held by State Participants on the relationship or the flexibility to be adopted in country or sectoral allocation would make it possible for all the African countries to achieve that target.

451. Concerning the question raised by the Representative of Italy as to whether the utilization of land was given priority by the Fund, he stated that Bank Group's agricultural sector policy contained a paragraph on that subject. He then read out the said paragraph.

452. Moreover, a study had been undertaken on all aspects of the use of land, including land tenure rights which could have an impact on the optimum utilization of land in Africa.

453. As for the extension services and the use of co-operative societies, discussions had been held, notably with the World Bank, on training and site visits as well as on certain methodologies advocated by France.

454. A sectoral policy paper would be prepared in due course. That was why the Bank's agricultural sector policy paper had suggested that the institution participate in a study relating to land tenure rights or the utilization of land in the African countries.

455. If the 30 or 40 per cent share set as a target for the agricultural sector were not to be attained the following questions should be raised : Had African countries not submitted a sufficient number of agricultural projects to the Fund? Did they not have the capability to prepare agricultural projects? Was it because the Bank had no capacity to prepare agricultural projects?

456. The Bank's Management had taken some corrective measures by increasing co-operation with the FAO and the Bank was currently the Executing Agency of IFAD.

457. Referring to the Technical Assistance Fund, Mr. SARR pointed out that 20 per cent of that Fund had been allocated to the agricultural sector, especially for the preparation of agricultural projects which could be financed under the ADF-VI.

458. The **REPRESENTATIVE OF THE UNITED KINGDOM** was pleased to hear Mr. Merghoub's comment on close co-ordination with the World Bank on structural adjustment. He wondered whether, in the same way that the Bank had prepared an indicative operational lending programme for the coming three years, the Fund would also have a similar list.

459. He shared the views of the Representative of France that before the Fund's Management came down rigidly in favour of one percentage figure or another, it would be better to see what the Fund was proposing to do.

460. Mr. MERGHOUB stated that future policy-based lending programmes would depend on the progress made in the dialogue between governments and the IMF.

461. The SPA commitment would be discussed during the SPA-2 meeting scheduled to take place the following week in Paris. According to the World Bank's assumptions, much support was expected from the donors, including the ADB Group.

462. He informed State Participants that under the SPA-1, the Fund's Management had programmed US\$ 390 million, to be increased to US\$ 512 million by the end of 1990 because of the greater number of countries that had become eligible for support.

463. Multilateral and bilateral agencies had been requested to assist eligible countries. The ADB Group's contribution would be helpful to SPA countries.

464. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** stated that in his earlier intervention he had pointed out that one of the reasons the target set for the agricultural sector was not reached could be due to difficulties in the identification and implementation of projects. That had been confirmed by Management as shown on page 43 of the report where it was said that adjustment had been made in response to borrowing countries priorities.

465. The **CO-ORDINATOR**, summing up the discussions, noted that, in the first place the country programming process had been emphasized as the major instrument for preparing the Fund's lending operations. In the second place, it was the view of most State Participants that, in the dialogue which should accompany the elaboration of Economic Prospects and Country Programming Papers (EPCPs) and the resulting programmes, the desirability of giving top priority to agriculture had been widely recognized. That was very closely followed by the need to discuss social sectors with borrowers. Relatively less weight had been given, than was suggested by the figures in the document, to public utilities and industry. There were diverging views on transport.

466. With regard to the question as to what were the sectors referred to by the Representative of Finland, he was of the view that State Participants could only proceed on the basis of the agricultural policy document which had previously been made available to them.

467. There were also differences of opinion about the extent to which guiding percentages should be regarded as binding or indicative. A lot of interest was shown in the idea of ranges. It was felt that the 30 per cent figure for agriculture could be increased at the expense of public utilities and the industrial sectors. The others were not in that category. The 20 per cent share in respect of the social and transport sectors appeared to be more absolute in nature. It would be advisable for State Participants to look at that further and ask the staff to explore a little bit more clearly for the subsequent phase whether minima should be considered for each of the sectors, particularly the main sectors.

468. He noted that the general sentiment was that in the planning, country priorities and country policy and performance should have the first weight; however, other main concerns of State Participants should be given the sort of weight underlined during the discussions so far.

469. Referring to policy-based lending, he had not asked State Participants to indicate at that stage what they thought about the proposal to go from 20 to 25 per cent. That was partly because several State Participants had wanted to reflect on the financing of sectoral investment, time-slices and the question of what should be included in fast spending policy-based lending.

470. He would like to return to that subject in the afternoon if there was time at least to see whether there were additional observations in addition to those made by participants who had stated rather plainly that they wanted a 20 per cent limit and those who had indicated that a fourchette of say 20 to 25 per cent or more might be desirable.

471. In that context, he had taken note of what Mr. Merghoub said on the 25 per cent limit. He felt that judging from his note which he had circulated before the current meeting began, that was a fact which participants should take into account.

472. Therefore, that was the extent to which he could sum up the outcome of that morning's discussions. He would like State Participants to have a quick round early that afternoon as a preliminary reaction to the proposal on the PBL limit and to consider briefly the technical assistance side of the operations. Some ideas would be put before the participants on which

discussions could be focused. After that, State Participants would move on to the substance of the scenarios and identify those questions and comments which they had wanted to put before Management; those questions could be taken into account during the subsequent consultative meeting scheduled for September 1990. Management wanted to ensure that the concerns expressed by State Participants were fully understood in preparing the meeting.

473. The **CO-ORDINATOR**, referring to the timing and place of the subsequent meeting, felt that State Participants would have to decide on the issue. The State Participants could meet after the meeting of the Asian Development Fund which was scheduled for 28 and 29 September. If that meeting did not take place, he would like State Participants to devote three days to the African Development Fund replenishment on 28, 29 and 30 September 1990.

474. If the Asian Development Fund meeting did take place then the ADF-VI meeting would be held only for two days namely on 30 September and 1 October 1990. If the AsDB meeting should take place in one day, then the ADF State Participants should meet for three days, namely, 29 and 30 September and 1 October 1990.

The sitting was suspended at 1.25 p.m. and resumed at 2.40 p.m.

475. The **CO-ORDINATOR** reminded State Participants that he had said that they would return to the question of preliminary views on the percentage of policy-based lending against the background of the discussions which had been held, bearing in mind that a number of countries, particularly the United States of America, the Federal Republic of Germany and others, had wanted to reflect further on the possible consequences of quick disbursing loans if it were decided, as a result of the LTPS-SPA process, to go down the road of financing time-slices of investments for particular sectors.

476. He therefore invited State Participants to air their views on that point and then return to the issue of technical assistance.

477. The **REPRESENTATIVES OF SWEDEN AND NORWAY**, referring to the percentage required on policy-based lending, stated that the position of their countries was that the ADF should stick to the 20 per cent limit on policy-based lending.

478. The **CO-ORDINATOR** stated that it would be helpful if there were some indications of the reasoning or the rationale behind the stance taken by them. He however thought that basically the State Participants who were in support of maintaining the current 20 per cent did not

484. The **REPRESENTATIVE OF JAPAN** stated, as a preliminary reaction that his country would go along with the 20 per cent limit on policy-based lending because if that type of lending instrument was not utilized wisely it could constitute a risk factor for borrowing countries and worsen their debt-servicing situation. His country would be prepared to reconsider its position after the SPA-2 meeting in Paris.

485. The **CO-ORDINATOR** wondered whether he could have some clarifications from the Representative of Japan on the issue of indebtedness. He pointed out that State Participants were not talking about policy-based lending in the Bank's resources on ordinary terms, but rather they were referring to policy-based lending on Fund's terms which were very concessional.

486. He wanted to know why Japan had thought that could have an adverse impact on the indebtedness of borrowing countries since presumably if they did not obtain the funds for policy-based lending they could get it exactly on the same terms for project-based lending.

487. The **REPRESENTATIVE OF JAPAN** explained that ADF's concessional resources would help to reduce the negative impact of countries' indebtedness.

488. If countries were to borrow funds, they had to be repaid in the long run. If policy-based lending resources were not to be utilized wisely those countries would only have to spend those resources on daily consumption. Therefore, policy-based lending should be accompanied by appropriate adjustment policies.

489. However, his country was not convinced that the ADB had acquired sufficient experience to monitor such a lending instrument.

490. The **CO-ORDINATOR** understood that the issue which the Representative of Japan was raising concerned the use of funds. That had brought State Participants back to the question of the effect of evaluation of the impact of policy-based lending on which Mr. Merghoub had spent quite some time the previous day to explain in detail.

491. He had therefore taken note of the fact that Japan would be influenced by those decisions which might help to ensure that policy-based lending was most effectively used.

492. The **REPRESENTATIVE OF THE NETHERLANDS** stated that given the probability that there might be a split view on the issue, his country's preliminary view might also be a way out to reach a compromise thereon.

believe that the economic conditions in various countries had changed sufficiently in relation to the type of investments which should be financed to make a change desirable.

479. The **REPRESENTATIVE OF THE UNITED KINGDOM** felt that it would be premature to take a very rigid position before addressing the overall size of the Fund's replenishment of resources. He would like to approach the issue from the point of view that the number of countries which were ADF-only recipients (if proposals made by Management were going to be adopted) was much greater than the ADB-only recipients.

480. He recalled the issue which he had raised before the lunch break concerning structural adjustment support. He would like his colleagues to focus discussions, if the Fund's Management could provide them with a short paper, on the Fund's tentative plans for the subsequent three years for structural adjustment support in the context of the SPA exercise.

481. The **REPRESENTATIVE OF DENMARK** pointed out that his country's position on ADF-V was motivated by the fact that it was rather reluctant to move beyond the 10 to 15 per cent limit on policy-based lending. Besides, his country was of the view that the Fund should mainly allocate its scarce resources to the poorest countries to alleviate poverty in accordance with the consensus that had been reached during the morning session. His country was of the view that due to the scarcity of resources and the possible outcome of the negotiations, the Fund should stick to the 20 per cent limit on policy-based lending.

482. The **CO-ORDINATOR** recalled that the discussions which State Participants had held earlier showed that within poverty alleviation there would be policy-based lending operations which might increasingly turn to support for social dimensions of adjustment (SDA). Therefore, the two issues were linked.

483. However, the point raised by the Representative of Denmark deserved further reflection. The current discussions were preliminary round because poverty alleviation was becoming a main preoccupation. It was seen in many countries that the best way to deal with the issue, particularly in the early stage of adjustment, was to protect the essential social sectors that were beneficial to the poor. That could have an impact on the views as to the percentage that should be adopted for policy-based lending.

493. His country would agree in principle with the limit of 25 per cent on policy-based lending on certain conditions. Firstly, he felt that adjustment programmes, be they sectoral or structural, should be established and worked out in collaboration with the World Bank. Secondly, the Netherlands, as a donor, had agreed firmly that if there was a threat that the 25 per cent limit would not be complied with or would be exceeded, automatically new loan proposals for PBL should not be submitted to the Board.

494. He had previously referred to the third condition which he was about to develop then, namely, his country's view that project loan sub-programmes which were closely related to the social dimensions of adjustment should be included under the PBL limit of 25 per cent. Fourthly, his country would like to have a firm commitment by the Fund's Management to inform State Participants on a timely basis on the pipeline of PBL loans.

495. Finally, his country would be in favour of a mid-term review on ADF-VI and would also request that the PBL should also be reviewed during that mid-term review.

496. The CO-ORDINATOR did not regard the issues raised by the Representative of the Netherlands as a compromise. Every State Participant was free to make comments which they considered to be important with a view to refining the agenda. The question of mid-term review would be dealt with in the course of the meeting. That issue had also been raised by the Representative of France in another context.

497. The REPRESENTATIVE OF CANADA stated that the question of percentage limit which should be set for policy-based lending was not so much an issue for her delegation. However, her country's delegation first position would be to consider a limit of 20 per cent which was ideal. That was related to the question of the quality of the loan and obviously the objective of PBL was to create an environment for growth and profitability as well as the countries' ability to repay. The arrears situation of the Fund was still very satisfactory.

498. She supported the view expressed by the Representative of Japan that if these loans did not generate conditions which enable countries to repay, then the Fund was in danger of putting them in an arrears situation because of the much shorter time-frame for repayment despite the high concessionality.

499. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** felt that there was a need to make a distinction between true policy-based loans and quick disbursing loans. There were some lending instruments going out that were fast-disbursing, but had no policy content at all. With regard to pure policy-based loans, sectoral or structural adjustment loans, his delegation believed that they should be prepared in close co-operation with the World Bank and did not believe that that type of loans should in any event be much more than 20 per cent of the lending programme.

500. The **REPRESENTATIVE OF SWITZERLAND**, referring to the ADF-V Mid-Term Review, stated that in view of the information at his disposal, the data given on the Fund's experience in policy-based lending operations had been rather scarce. Besides, the Bank intended to undertake a more in-depth review or evaluation of its experience in the PBL sector. He wanted to know whether it would be possible to make available to State Participants before the conclusions of the ADF-VI negotiations or the conclusions which the Bank might reach in that important field. That information was important for his delegation to judge the percentage which his country would want to provide for policy-based loans.

501. The **REPRESENTATIVE OF ITALY** stated that a fourchette of 20 and 25 per cent limit on policy-based lending would be acceptable to her country. However, she cautioned that particular attention should be paid to the instrument since it was new to the Bank. For that reason, she thought that the preparation of policy-based lending should be done in collaboration with the World Bank.

502. The **REPRESENTATIVE OF FRANCE** noted that a number of State Participants had commented or made observations which advocated the need to have an open mind on the question of the percentage limit required for policy-based lending. Some of them had also referred to the relationship between the issue and negotiations relating to the Special Programme of Assistance for Africa (SPA).

503. Like the Representative of the United Kingdom, she felt that the issue was linked to the size of the replenishment of the ADF resources. It was obvious that if the replenishment was substantial, part of the 20 per cent of the Fund's resources to be allocated to adjustment or reform measures would enable the Fund to take into account a number of programmes and reform measures which could not be financed if the level of the Fund's replenishment was poor.

504. She therefore felt that the issue should be kept open for the time being for a long time frame, i.e. operating with a fourchette so that that type of operation can be utilized during the replenishment period, without prejudging the exact amount of resources that would be required.

505. The State Participants should be guided by a number of considerations. Firstly, it was difficult to prejudge what would be the requirements of poor countries in terms of adjustment or reform measures and to think that since their requirements would be less substantial than those in the higher income countries, what the State Participants had accepted in the context of the ADB window, it was difficult to think that poorer countries would generally require lesser reform measures of that nature.

506. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** pointed out that the specific reasons the Deputies had finally agreed to the 20 per cent limit for policy-based lending during the ADF-V negotiations were known to all State Participants. In his view, it was not clear whether those reasons were still valid, particularly since no evaluation had been undertaken. In the absence of such an evaluation, it was difficult to fix objectives. The Fund would not know and could not determine what it was aiming at because one did not know either the ability of the Bank to cope with that type of risky lending instrument or the burden imposed on recipient countries.

507. As a preliminary view, his country would like the Fund to stick to the 20 per cent limit for policy-based lending and to include all forms of risky quick-disbursing loans in that limit.

508. The **CO-ORDINATOR**, summing up the discussions, noted that one point State Participants should all agree on was that policy-based lending, perhaps more than anything else, should be distributed in function of performance. The general view which had emerged from the Mid-Term Review itself was that policy-based lending had previously been distributed, so far as Fund recipients were concerned, against the performance requirements as demonstrated in SPA. What was not clear, and that was something which many people had emphasized, was the effectiveness and the impact of that lending. As the Representative of Canada had indicated, the jury was still out on that. State Participants hoped to see whether the jury would bring in a preliminary verdict on that to help them firm up conclusions before the end of the process. Management was being requested to examine that. If that could not be the case, then a more open approach should have to be adopted by State Participants on the lines suggested by the Representative of France. It would however be useful if a verdict could be reached one way or the other.

509. At any rate, it was clearly the common position at the moment that the starting point for consideration of the issue in the negotiations was the 20 per cent figure which was set for ADF-V. Some State Participants were only prepared to consider collectively going beyond that if they were reassured of certain other aspects. Many of the points which individual State Participants made on that issue, and he was certainly including those made by the Representative of the Netherlands, were going to be important and would be taken into account.

510. With regard to the question of the Technical Assistance Fund (TAF), it was discussed during the Mid-Term Review. It was therefore not advisable for State Participants to repeat it at that meeting.

511. He would like to invite State Participants to consider the following questions. Firstly, he wondered whether there were any other forms of Technical Assistance which ought to be taken out of the limit set. There might be types of Technical Assistance, and he would call them implementation types of assistance, which were actually critical to the success of a particular loan investment, whether they were traditional projects, whether they were investments or PBL-type operations which had an essential element of co-operation in order to ensure that they worked properly.

512. He suggested that State Participants should consider having no limit on those operations. If that was the case, then of course, the question would arise as to what should be the limit on free-standing technical assistance on which many State Participants had commented. Participants might wish to express views on the division of types of free-standing assistance. He had realized that he was introducing a new thought to State Participants which was not contained in the document because the paper suggested that there should be a 10 per cent limit as there had been in ADF-V. The Representative of Belgium had reminded his colleagues that his country was never happy about that particular point. He, however, invited State Participants to address it or simply reflect on those questions rather than discuss or react to them. But he would be interested to listen to any comment which any of them had on how the Technical Assistance issue in the ADF-VI should be addressed.

513. The **REPRESENTATIVE OF BELGIUM** would like to comment on the Technical Assistance. First of all, he had taken note of the Chairman's introductory remarks.

514. Despite the assurances given by the Fund's Management during the ADF-V Mid-Term Review, he was not fully reassured by the experience of the Technical Assistance Fund, which was allocated 10% of global ADF-V resources.

515. He observed that, in spite of improvements in the level of commitments, there was a lack of clarity on the centralization of operations which for the time being was dispersed and showed some weaknesses.

516. Another area of concern to him, was the high number of small operations which were concerned. As at 1989 about 51 Technical Assistance operations had been carried out and there would be perhaps as many in 1990. He felt that for such operations of less importance a substantial amount of human resources had been mobilized with the ADB. He was also concerned about the fact that there had been no evaluation of those operations.

517. With respect to the conditionalities for the Technical Assistance operations, he recalled that in the framework of the ADF-V it was envisaged that a modest part of the Fund's operations, namely, 3 per cent, would be allocated to countries in Category C in form of loans. He observed that the Chairman had participated in the negotiations for the replenishment of the Fund's resources. He recalled that his country had raised objections as to the possibility of making part of its contributions to ADF-V in the form of grants.

518. According to his country's legislation concerning the issue of contributions to international institutions, contributions were considered as theoretically refundable amounts; in other words they were long-term credit balances and not grants. That was why the proposal which had been put forward by Management to devote fully the resources of the Technical Assistance Fund in the form of grants had posed serious problems to his country.

519. Like in the framework of the previous replenishment exercise, a modest amount for countries in Category "C" should be earmarked in the form of loans on concessional terms. Moreover, he was concerned with the terms of that fund.

520. He therefore drew Management's attention to the text of the resolution concerning the ADF in which those provisions were clearly mentioned and the summary records of the meetings which were held on the occasion of the ADF-V replenishment of resources, and particularly to the last meeting held in the Hague, during which a solution was worked out to deal with the problems of his own and of another delegation.

521. The **REPRESENTATIVE OF THE UNITED KINGDOM** stressed that the Technical Assistance Fund could have been used to better effect over the past two years. Although his country had been one of those who did argue strongly in favour of a 10% allocation

in the Fifth Replenishment, it would like to see it more closely related to project preparation and implementation, rather than being used for other purposes that could be funded by other sources of financing outside the Bank Group.

522. He admitted to some hesitation about the Co-ordinator's suggestion that the former type of activity could be implemented in future without any limit at all, not least because when talking about implementing environmental concerns, it was made clear that the preparation of environmental action plans and impact assessments would be a very expensive process. It was better to have a specific allocation than leave the whole issue open.

523. There was really no justification in the proposal for the conversion of Category 'C' Technical Assistance from loans to grants. Whilst proceeding on the basis that the change was unwelcome, he remained open to persuasion by Management's arguments.

524. The CO-ORDINATOR pointed out that his suggestion did not mean that all forms of technical co-operation should go into loan or project implementation, nor did it rule out the kind of work mentioned on the environment.

525. The REPRESENTATIVE OF ITALY shared the Belgian delegate's view on the use of technical assistance.

526. The REPRESENTATIVE OF NORWAY felt that one of the major objectives of ADF-V discussions had been to improve the project pipeline, even if it was not certain whether that objective had been achieved.

527. He was rather uncertain, therefore, how far to go about the size of the amount to be set aside for technical assistance. Like Belgium, Norway was one of those that were very reluctant to accept the 10 per cent allocation for TAF.

528. Nor was it clear to him what was actually proposed for technical assistance in the ADF-VI document, because there were elements of technical assistance sprinkled over many places not only under the TAF but also under debt management proposals, under economic integration proposals, etc. It would be necessary to clarify that point before deciding on the size of TAF for ADF-VI.

529. Mr. RWE GASIRA stated that the proposals were consistent with the policy guiding the technical assistance operations under ADF-V.

530. Mr. NKODO agreed with Norway's representative that it was envisaged to undertake several technical assistance activities, but they were all expected to be financed under the TAF, and not from any other budget line. The crux of the matter was that there was really a need to take an integrated view of technical assistance provided by the Bank Group. The priority given to project preparation was justified, but clearly what Management was seeking was not so much to ensure good project preparation, which might be narrowly-based, but getting good projects to be implemented. In this case, it was necessary to take a look at the technical assistance needs of the recipient country throughout the project cycle. And since the country has the primary responsibility for project identification and project implementation, technical assistance operations for institution-building can help to strengthen the borrower's capacity in these areas.

531. The CO-ORDINATOR suggested that where technical co-operation was critical to the success of a lending programme, it should be put on top of the list. What Deputies had been concerned about was "free-standing" technical assistance.

532. The REPRESENTATIVE OF NORWAY asked if some of the areas he mentioned were not under the 10% TAF but under the 10% unallocated, which was the part to handle debt management and economic integration.

533. Mr. NKODO replied that the 10% unallocated was supposed to bring additional financial resources to countries undertaking major policy reform programmes and special initiatives in those areas. The technical assistance component to support those activities would still be handled under the TAF. At present, whenever the Bank had a structural or sectoral adjustment, the package was financed under the regular ADF Budget and a separate technical assistance component financed under the TAF.

534. Mr. MERGHOUB added that the unallocated element proposed was not a grant, but a loan on ADF terms, for several important types of activities under ADF-V for which resources were not adequate. For instance, the multinational projects that would fall under this category would not be on a grant basis, it would be likewise for unforeseen emergencies falling outside the range of normal country allocations.

535. The **REPRESENTATIVE OF JAPAN** felt that it was preferable for technical assistance to be limited to the project identification or preparation type; he observed that free-standing technical assistance was liable to cause abuse and inequality among borrower countries, and considered, taking account of its low commitment ratio under ADF-V and the activities of other institutions, the 10% technical assistance allocation a bit too high.

536. Furthermore, with regard to the grant of technical assistance to Category 'C' countries, his delegation supported the maintenance of reimbursable basis, and could not support the change to grant basis.

537. The **CO-ORDINATOR** observed that differing views had been expressed about the importance of technical assistance implementation. It seemed rather useful to persuade a borrower that a certain technical co-operation was acceptable for successful operation; sometimes one encountered institutional resistance to something, but that kind of difficulty could be overcome.

538. The other main reflection to be drawn from the discussion was the emergence of a clear preference among speakers for the improvement of the project pipeline. There were questions, on the actual amount to be allocated for that purpose. So far no one had spoken in favour of going over to a grant basis for Category 'C' countries.

539. At that juncture, he called on the Deputies to proceed to the examination of the ADF-VI Replenishment, particularly the four alternative scenarios in Chapter 5, and the Review of Financial Management in Chapter 6, including the cost sharing of administrative expenses in Annex 2. He was not asking for firm views on the eventual volume of the replenishment as he considered that the Deputies wanted to be satisfied first about their major concerns on effectiveness and efficiency. That was quite clear from the above deliberations. It would be desirable to know what further work would be necessary before the September Meeting so that the timetable could proceed on schedule.

540. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** agreed that it was premature to talk about the appropriate size of the replenishment. But within the context of the request for information, his delegation would like Management to prepare an analysis of the real value of ADF-V on the same basis as that of IDA-8 and IDA-9. It would be inappropriate to use consumer price index as a deflator.

541. The **REPRESENTATIVE OF JAPAN** asked whether the 1991-1993 Work Programme was prepared by tidying up individual projects or programme pipelines or was merely a rough estimation. Secondly, in the same vein as the United States of America, he feared that the weighted average (paragraph 5.5.3) of price index might have been over-estimated because African currencies ought to depreciate considerably in relation to the Fund's Unit of Account. He therefore asked Management to clarify the situation.

542. Lastly, with regard to Table 5.3, he enquired whether due account had been taken of countries in loans arrears not only to the ADB Group but also to other international institutions like IMF and IBRD in terms of their absorptive capacity.

543. The **REPRESENTATIVE OF NETHERLANDS**, considered that various factors pointed to a substantially lower replenishment level, notably the relation between the US dollar and FUA, the adjustment of the weighted average index, and the latest inflation rate compared to the 11% published in October 1989 by IMF. He therefore sought clarification in the light of those factors.

544. The **REPRESENTATIVE OF THE UNITED KINGDOM** associated his delegation with the request for a further paper on the calculation in real terms, particularly on the lines of the IDA methodology for the last three replenishments. The weighted average of African and world inflation was an inappropriate approach for a replenishment being contributed by external donors. Perhaps, at the same time as the preparation of the said paper, Management could explain how the baseline figure of ADF-V in real terms of FUA 2,192.91 million in Table 5 was arrived at. It was not quite clear whether the Bank's calculations were based on gross commitments or net of cancellations. It would be helpful to get that paper before making any meaningful comments on the four scenarios.

545. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** shared the previous speakers' call for the use of IDA deflators. The working document left out references and analysis of both the IDA-9 replenishment and Lome IV, and offered scanty information about the absorptive capacity of the recipient countries in relation to loan repayment arrears and the need for additional staff to ensure the increased administrative capacity of the Bank under the different scenarios.

546. Besides, he could scarcely see the relevance to the current deliberations of the Co-ordinator's allusion to LPTS and the statement that the gross ODA should increase by 4% per annum throughout the 1990's.

547. The CO-ORDINATOR, in reply to the remark of the Representative of Federal Republic of Germany, said he had simply wanted to draw attention to what the long-term perspective study said about the collective requirements for increased ODA to Africa. There were no immediate or automatic implications for any particular channel; on the other hand, the implication for collectivity of assistance in order to achieve viable growth on the basis of the LPTS-type imposed an obligation which should be borne in mind in approaching replenishment. Moreover, the LPTS study, and the SPA document in particular, gave some indication of the absorptive capacity of the beneficiary countries.

548. Mr. RWEGASIRA reminded Deputies that the issue of inflation was an old one which not only featured in both the GCI-IV and ADF-V, but also underlined the fact that inflation was so variable that it was difficult to pinpoint accurately. Thus, the document only embodied an indication of price behaviour trends. The relevant cost was the project site cost when the relevant goods and services were already in place for construction. The index of manufactures was fob; and transportation costs were quite high in Africa.

549. Note had also been taken of the increasing trend of procurement of goods within Africa, representing some 40% of Bank Group procurements. Therefore, the relevant variable was local inflation.

550. However that point was handled, whether through consumer prices or GNP deflators, was a technical issue, but the indices were taken as indicators of price behaviours, without any pretense at precision. The same methodology had been used in the past, the movement of exchange rate was relevant, but it was not entirely clear how one could predict three years ahead. Even the World Economic Outlook had not been able to pinpoint exchange rate movements in Africa.

551. It was, unavoidably, a very rough estimate, but Management was prepared to give further explanations.

552. Mr. LONDON amplified Mr. Rwegasira's broad replies to Deputies' questions.

553. With respect to the assumptions underlying future nominal exchange rate movements, he warned that in the best of times, exchange rates were difficult to forecast, and the Bank made no pretense at all as to perfect knowledge regarding future exchange trends. The option that was adopted when preparing the document was to assume ignorance of likely future rate of exchange for any particular currency.

554. Concerning the issue of IDA-9, Deputies were correct to compare what had been done by the Bank Group with that of IDA. He supported Mr. Rwegasira's view that it was realistic to look not just at price movements in the donor countries, but in the recipient countries as well. Available evidence in the Bank suggested weights of .6 and .4 were reasonable and if that position was acceptable, one should consider what kind of deflators were to be used in calculating real values.

555. Admittedly, circumstances had changed since the world manufacturing price was published in the October 1989 IMF World Economic Outlook, and the Bank Group would update this information accordingly. ADF estimates were precisely those taken from the document. There was a policy issue : if one assumed the kinds of inflation rates for Africa shown in the proposal, was it not natural if the exchange markets were efficient to expect some exchange rate adjustment. It was not thought desirable to get into that point since the Fund was not a forecasting agency.

556. It was on this basis that .6 and .4 were taken for procurement patterns of the Bank, together with the consumer price index of lower-income sub-Saharan Africa.

557. Turning to the calculation of FUA 2,192.91 million, assuming that 1988 was the base year, with prices set at 100, and given the inflation rate, and the weights attached to the two sets of prices, the commitments made over the three-year period 1988-1990, one could calculate the real value of ADF-VI commitment, depending on the base year used.

558. Deputies were also right in requesting a sensitivity analysis on price movements of the IDA-9 document. Following the methodology employed in that document, abandoning the notion of procurement patterns and relative weights would imply an assumption of an inflation rate for sub-Saharan Africa of the same amount, i.e., for 1991-1993 3.3% as would have been assumed for the rest of the world.

559. Mr. RWE GASIRA stated the relationship between the basket of currencies like FUA or SDR and domestic inflation was a relevant issue but caution must be exercised given the "cost-push" fashion of inflation. Secondly, the weights .4 and .6 were assumed for ADF-VI period, but 0.3 and 0.7 for projects and programmes over the ADF-V period.

560. As to the question of arrears being indicative of lack of absorptive capacity, he pointed out that the Bank Group was well within the range of the identified requirements of African countries.

561. Mr. MERGHOUB observed that the assumed rates in the scenarios were below the projection of LTPS and SPA-2 that foresee a much higher real increase per annum for the ODA.

562. The REPRESENTATIVE OF THE UNITED KINGDOM maintained the view that the approach adopted by Management in taking the weighted index of Africa and world inflation was not the appropriate one in the present context. He conceded that there were complex economic arguments about the link between exchange rates and inflation, but reiterated his country's considered view that the present disequilibria in the exchange rates, as reflected in different inflation rates, was no justification for giving a compensatory increase in the Fund's resources. He therefore repeated his delegation's position, as endorsed by all the previous speakers, that the approach taken by the World Bank in IDA-9 Replenishment was the right one for ADF-VI too. He was quite certain that the figures, based on that approach, was likely to be strictly different to those in the document.

563. The CO-ORDINATOR concluded from the above broad exchange of views, firstly, that the State Participants wished to see - and Management would certainly provide - calculations based on IDA-9 methodology. Secondly, it was necessary to see whether there were special reasons why that methodology might be inadequate for the present particular replenishment. It might well be that Management would like to confer with the World Bank on the matter, with the main focus centring on low-income Africa and low-income Asia.

564. Whereas in Asia, there might be a relatively freer movement of exchange rates, in Africa there were a fairly large number of ADF borrowers whose exchange rates were comparatively stable on account of their membership of the Rand zone or the CFA zone, whose rigid exchange rates were bound to impact on the calculations.

565. The CO-ORDINATOR wanted to know the point of view of the participants on the paragraphs in the document that had not been considered, namely paragraph 3.3.17 concerning debt buy-backs in respect of category A countries.

566. The REPRESENTATIVE OF THE UNITED KINGDOM, referring to paragraph 3.3.16 where it was proposed that during the ADF-VI period, category A countries should limit their borrowings in such a way as to make use, almost exclusively, of the Bank Group's concessional resources, stated that the allocation of FUA 900 million intended to compensate the exclusion of those countries from ADB resources would only help a small group in the category.

567. He added that the strong concentration of the Bank's activities in one country, namely Zaire, led him to wondering about the Bank's lending strategy. It would be desirable to have Management produce a document on its strategy vis-à-vis that country as well as the reasons that led it into granting that nation so much resources.

568. He shared the feelings of speakers who had expressed reservations on blend financing to be granted to category C countries.

569. Concerning debt management, he supported the decision to establish a special debt management unit and expressed regret that that had not been included in the budget. He thought, however, that priority should be given to consolidating the Bank's position as a lending institution by leaving the issue of debt rescheduling or management to more competent fora already at work in that area.

570. The **REPRESENTATIVE OF JAPAN**, supported by the representatives of the Netherlands, Canada, the Federal Republic of Germany and the United States of America, was of the view that debt relief, though an important issue to African countries, required in-depth study as well as co-ordination with other international institutions. He also thought that it was not appropriate to use ADF resources for debt rescheduling or repurchase since such action would go against the agreement establishing the ADF.

571. He objected to the use of Fund's resources for the debt relief of category C countries.

572. The **REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY** asserted that a development aid fund could not be used for commercial transactions on debt.

573. The **REPRESENTATIVE OF CANADA** called on Management to follow the approaches adopted on the co-ordination that should exist among institutions.

574. The **REPRESENTATIVE OF THE UNITED STATES OF AMERICA** for his part thought that debt management by a unit of the Bank violated the Institution's principles.

575. The **REPRESENTATIVE OF FRANCE** pointed out that the paragraph on debt relief also dealt with the access of Category A countries to the Bank Group's concessional resources during the ADF-VI period; that constituted an orientation resulting from the analysis of concessional resources needs of those countries. The issue should be of interest to the Fund during negotiations.

576. Concerning debt relief, France shared the concern expressed by various delegations on the need to exercise caution in the policy to be adopted and to work in close collaboration with institutions specialized in that domain.

577. The Bank Group should therefore act in conformity with the orientation adopted by bilateral donors and the World Bank; the latter had set up a debt reduction facility and strategy. The strategy which had received the support of the international community would be followed by other international institutions. The ADB could set up a similar mechanism or participate in the IDA initiative.

578. The CO-ORDINATOR noted that all the points raised by the participants were directives to Management and that there was a consensus of views against the policy of extending concessional resources to category B and C countries.

579. On whether compensation would be made to Category A countries that would not be able to approach the Bank for loans, he stated that no such proposal was made, but that while no individual country could make such a claim Category A as a whole could reasonably expect the reduction in total resources available to them to be made good.

580. The REPRESENTATIVE OF THE UNITED STATES OF AMERICA requested clarifications on the Bank's role in the establishment of a debt-monitoring unit.

581. The REPRESENTATIVE OF DENMARK wanted a document dealing with burden-sharing that would establish a basic formula on disbursement in nominal terms for the Bank and the Fund for 1988 to 1990.

582. The CO-ORDINATOR stated that the issue of burden-sharing between ADF and ADB, on which a proposal was made in chapter 6.5 of the document, was quite important but could be tackled at a later stage.

583. The REPRESENTATIVE OF JAPAN was of the view that the size of replenishment was eventually decided in relation to burden-sharing among donors; therefore, they should refrain from urging larger size if they did not have strong willingness to increase their own contribution.

584. His country, in collaboration with other countries, was prepared to make an adequate contribution but was very reluctant to remain the top-donor on account of its fair weak historical, geographic and economic ties with Africa.

585. The CO-ORDINATOR took note of Japan's position and expressed the view that that country did not intend to reduce its participation but to lead other State Participants to increasing their contribution. He stated that the point raised would be considered during the September meeting.

586. He called on participants to give their views on the review of the cost-sharing formula.

587. The REPRESENTATIVE OF THE UNITED KINGDOM thought it premature to address the issue of revising the cost-sharing formula. He stated that the formula envisaged was not equitable in sharing costs and needed to be reviewed to arrive at a more appropriate method. He agreed with the representative of Denmark that Management should prepare a document highlighting effective disbursements.

588. The REPRESENTATIVE OF NORWAY shared the view expressed by the representative of the United Kingdom.

589. The REPRESENTATIVE OF THE UNITED STATES OF AMERICA associated himself with views expressed by previous speakers and stated that the 40% figure for ADF-VI was not equitable. Things should be based on more realistic figures.

590. The REPRESENTATIVE OF CANADA stated that indicators used were arbitrary. She requested that more realistic methods should be considered.

591. Mr. BUCKNOR explained that to arrive at the proposed formula, various methods were considered after Management had taken into account activities that were directly or indirectly related to loans and loans administration. Management had concluded that cost-sharing should be linked with the Fund's and the Bank's loans.

592. Vice-President KERNO added that an in-depth study of the issue had been undertaken before arriving at the 40% proposal for the ADF-VI period according to financial activities and in conformity with the provisions of Article 31 of the Agreement Establishing the Fund which stipulated that the Fund would bear an equitable part of the Bank's staff and administrative expenditure.

593. He therefore thought that it would be better to give specific directives to Management to enable it to arrive at another percentage.

594. The CO-ORDINATOR shared the Vice-President's point of view and thought that Management should be given the directives to follow. The Bank could also be encouraged to make a contribution to the subsequent replenishment.

595. The REPRESENTATIVE OF CANADA requested that the issue be discussed during the subsequent ADF meeting.

596. The CO-ORDINATOR noted that the prevailing feeling was that the issue should be treated at the subsequent meeting.

In view of the need for an expeditious conclusion of the current replenishment negotiations to facilitate ADF operations in 1991, the Deputies agreed provisionally to hold their subsequent meeting in Washington DC from the afternoon of 27 to 29 September 1990 immediately after the Annual Meetings of the IBRD and IMF. Meanwhile, relevant Participants would appeal to the Asian Development Bank to reschedule its Fund's replenishment meeting also scheduled to be held on 28 and 29 September 1990.

OTHER BUSINESS

597. The CO-ORDINATOR said that the subsequent meeting would be devoted to country programming and eligibility, country and sectoral allocations, technical assistance, burden-sharing and the trigger mechanism.

598. With regard to country eligibility, he recommended to the Deputies to accept the current country categories which Management had established on the basis of the 1988 GNP figures. He told them that they would have to consider further, in the light of the information to be provided by the Bank, the operational distinction between Group A1 and A2.

599. A decision should be taken as to whether the Fund's resources should go exclusively to the most debt-distressed countries in categories A which were also earmarked for the IDA special programme for Africa or whether that facility could be extended to Category B countries in a similar economic situation. The Deputies would also consider the possibility of limited Bank lending to those category A countries that were not on the debt-distressed list. Further consideration would also be given to the approach to be adopted toward Nigeria which would move to Category A. If lending possibilities should be extended to countries outside Category A, then that had to be taken into account when deciding on the volume of the replenishment.

600. As far as country allocation was concerned, priority should be given to poverty alleviation but increased weight should also be given to country performance. Management should submit appropriate proposals on the issue. Country performance should also be a salient criterion for policy-based lending. In fact, issues relating to that type of lending would be discussed further at the next meeting.

601. He recalled that Deputies had already stressed the importance of the agricultural and social sectors and the priority to be given to them in the dialogue with borrowing countries and the country programming process. There had been a consensus on paying more attention to cross-sectoral priorities and particularly poverty alleviation. Management had been requested to submit a document thereon for consideration. Furthermore, an annotated agenda should be prepared so as to enhance discussions in Washington.

602. Concluding, he suggested that a third meeting be envisaged for November 1990. Time was running out and State Participants should have a precise idea on their potential contributions for inclusion in their respective budgets. In any case, the Deputies should endeavour to obtain the necessary replenish authorizations from their governments.

603. The **REPRESENTATIVE OF FRANCE** said that the speech read out by the Co-ordinator at the beginning of the meeting could be a very good reference document during the negotiations and appealed to her colleagues to take note of the issues covered therein. She would in fact be grateful if reference could be made to those issues in the summary record of the meeting.

604. The **CO-ORDINATOR** suggested that his opening remarks and those of the ADB President be attached as annexes to the summary record of the meeting.

It was so decided.

ADOPTION OF THE REPORT OF DEPUTIES REPRESENTING STATE PARTICIPANTS ON THE AFRICAN DEVELOPMENT FUND ON THE MID-TERM REVIEW OF ADF-V

605. The **CO-ORDINATOR** proposed that the report be considered paragraph by paragraph.

It was so decided.

Paragraph 3

606. The first two sentences were amended to read : "Deputies welcomed document ADF/ZE/MTR/-ADF-V/90/02, and in particular the frank and clear analysis made in it of the extent to which Management had been able to adhere to the directives laid down in the original ADF-V report. They expressed satisfaction in particular, at the observation of the directives dealing with the distribution of resources."

Paragraph 5

607. Sub-paragraph 5(f) was amended to read: "Need for further strengthening the Fund's approach to poverty alleviation, environmental assessment, improvement of the role of women and population assistance".

Paragraph 6

608. The word "period" in line 4 was deleted.

Paragraph 8

609. The word "conclusion" was replaced by "outcome".

The Deputies adopted the above report subject to the amendments made.

610. The **REPRESENTATIVE OF CANADA**, supported by the Co-ordinator, urged Management to see to it that the summary record was prepared and submitted in time to enable Deputies to prepare for the forthcoming meeting in Washington.

It was so decided.

The meeting rose at 6.15 p.m.