

ORIGINAL

AFRICAN DEVELOPMENT FUND

ADF-VI/CM.2/90/02/SR

**PROVISIONAL SUMMARY RECORDS OF THE SECOND CONSULTATIVE
MEETING ON THE SIXTH REPLENISHMENT OF THE ADF RESOURCES**

WASHINGTON D.C., 28-30 SEPTEMBER 1990

**PROVISIONAL RECORDS OF THE SECOND CONSULTATIVE
MEETING ON THE SIXTH GENERAL REPLENISHMENT OF RESOURCES**
held at the Vista International Hotel, Washington D.C.
on 28, 29 and 30 September 1990

A. PRESENT**CO-ORDINATOR**

: Mr. Ian BUIST

HEADS OF DELEGATION

1.	Argentina	:	Mr.	JOAQUIN IZCUE
2.	Austria		Mr.	HERBET LUST
3.	Belgium		Mr.	JEAN-PIERRE ARNOLDI
4.	Brazil		Mr.	CARLOS AMORIM, JR.
5.	Canada		Ms.	CAROLYN McASKIE
6.	China		Mr.	WEIMIN YANG
7.	Denmark		Mr.	STEN LILHOLT
8.	Finland		Mrs.	ANNA-LIISA KORHONEN
9.	France		Mr.	DENIS SAMUEL-LAJEUNESSE
10.	Federal Republic of Germany		Mr.	FRITZ FISCHER
11.	India		Mr.	J.L. BAJAJ
12.	Italy		Mr.	GIOVANNI SACCO
13.	Japan		Mr.	JUNICHI YONEZAWA
14.	Korea		Mr.	NO-CHOONG HUH
15.	Netherlands		Mr.	RONALD KELLER
16.	Norway		Mr.	KJELL HALVORSEN
17.	Portugal		Mrs.	GRACA MONTALVAO
18.	Saudi Arabia		Mr.	IBRAHIM AL-MOFLEH
19.	Spain		Mr.	VALENTIN LAISECA
20.	Sweden		Ms.	INGA BJOERK-KLEVBY
21.	Switzerland		Mr.	JOERO REDING
23.	United Kingdom		Mr.	TONY FAINT
24.	United States of America		Mr.	GEORGE FOLSOM

B. AGENDA ITEMS CONSIDERED AT THE MEETING

1. - Adoption of the agenda
2. - Adoption of the Summary Records of the First Consultative Meeting (ADF/ZF/MTR-ADF-V - ADF-VI/CM.1/90/01/SR)
3. - Consideration of Substantive papers :

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- 3.1 Eligibility and Country Allocation (ADF-VI/CM.2/90/03)
- 3.2 ADF Experience in Policy-Based Lending Operations, 1986-1990 (ADF-VI/CM.2/90/04)
- 3.3 Towards an ADF Strategy on Poverty Alleviation (ADF-VI/CM.2/90/05)
- 3.4 The Maintenance of the Real Value of ADF-VI commitments (ADF-VI/CM.2/90/06)
- 4. - Other Replenishment Issues
 - 4.1 Note by the Co-ordinator
- 5. - Other Business.
- 6. - Date and Place of Next Meeting

OPENING OF THE MEETING

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1. The **PRESIDENT** of the ADB, on behalf of the African Development Bank and the African Development Fund, thanked the Deputies for having graciously accepted to make provision in their tight work schedule for the second meeting concerning the negotiations on the Sixth Replenishment of the Fund's resources. He assured them that Management appreciated their presence and was particularly looking forward to the successful outcome of that meeting. As Deputies were aware, the operational term of the ADF-V would come to a close at the end of 1990. It was therefore Management's wish, and obviously that of the Deputies, that ADF-VI become effective at the beginning of 1991. The work schedule was therefore going to be extremely tight but with the good intentions of State Participants as regards the successful operations of the Fund, Deputies would make the necessary sacrifice to conclude the negotiations on time. He wished participants success in their deliberations.

2. The **CO-ORDINATOR** thanked the President for his opening statement of welcome to the second consultative meeting on the Sixth Replenishment of ADF resources. He pointed out that the objective of that gathering was to reach consensus on as many as possible of those policy issues which the Deputies had initially considered in Abidjan. That consensus should be clear enough to enable Management to prepare a draft report for agreement at the subsequent meeting. The Deputies should also have a substantial exchange of views and discussion on the target amount for the replenishment and associated issues such as burden-sharing and the appropriate exchange rate to apply for ADF-VI. Finally, Deputies should identify any unresolved issues, and other points, such as the technical arrangements for the necessary draft resolution, on which further work had to be done, and give staff some guidance on how they should be tackled.

3. Although events since the June meeting were fresh in everyone's mind, he would make no apology for highlighting those that were most important for the negotiations. First, and most serious, was the heavy extra burden of payments and further adjustment needs caused by the Gulf crisis and by the uncertainty about its resolution. The World Bank noted in its recent paper on the short-term outlook, dated 13 September, that the "uncertainty scenario", implying an oil price only \$31-32 per barrel for the rest of 1990 and \$29 for the first half of 1991, would affect over 2/3 of the IDA-only countries, and it added : "Most of the African countries fall in this group, such as Ghana, Kenya and Tanzania, where the annual losses are equivalent to 8.8%, 16% and 14% respectively of exports of goods and non-factor services." The paper went on to draw

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the lesson that even more rapid domestic adjustment was essential; that it would be critical to maintain the momentum of structural reform; and that : "The role of external donors in supporting these reforms will be even more important than in the past, as was their support for targeted programmes helping the poorest population groups in dealing with the additional deprivations which the current external shock will cause them."

4. One of the most encouraging developments since June had been the progress towards a second Special Programme for Africa, and the success of the Maastricht Conference in mobilizing and articulating a political consensus for what needed to be done. He felt, however, that next month's SPA 2 Conference would have to look hard at the adequacy of its present assumptions on the financing needs of poverty-stricken, debt-distressed Africa if the programme itself was to succeed. It was also Management's view that the ADF should play a greater and more effective part in SPA 2. That new challenge had implications for the decisions to be taken on the size of ADF-VI and on the ceiling, allocations and use of its policy based lending.

5. Another development had been the extraordinary flowering of a consensus on the importance of poverty reduction and on what should be done to achieve it. He was particularly struck by the statement of Minister Skauge, on behalf of all the Nordic countries, to the Development Committee, endorsing the two-pronged approach of encouraging sustainable growth through macro-economic reforms and of tackling directly the need for basic health and education services, including reducing population growth and improving the position of women. Minister Skauge called on the multilateral agencies to revise their allocation policies accordingly and to be ready to help members with advice and assistance on poverty reduction. All those issues were well reflected in the Development Committee communique and was the theme of President Conable's speech to his Annual Meeting on Tuesday. Looking at the paper provided by staff for the meeting, he could see a virtually identical approach. He hoped therefore that Deputies would be able to nail down agreement on those issues and on tackling poverty through all the ADF instruments - TAF, conventional project help and policy based lending. There would of course be staffing aspects to address.

6. Events had also moved on within the Fund. Deputies would hear more from staff during the meeting to update them on various points. He drew their attention meanwhile to some supplementary information notes available in addition to the papers sent earlier and to one in particular: on the state of commitments and commitment capacity at the end of August. That

report was disquieting. It showed that the Fund had only been able to sign up 9 loans, for less than FUA 150 million since the start of the year. Twenty-five (25) loans, for over FUA 270 million had been approved but could not be signed because the third tranche of ADF subscriptions had yet to be received. When Deputies last met, that number was only 13 loans for just over FUA 130 million. Those pending loans included at least one for structural adjustment support, and the oldest were approved as long ago as last December. He felt that Deputies should consider the damage that could be done to the efficiency of ADF administration by imposing those fits and starts on it. All aid practitioners knew that aid projects, once worked up, could get quickly out of date if there were such delays. Deputies must try to minimize that operational damage in the technical arrangements for the next ADF. Staff had prepared a paper with Management's suggestions on that. Deputies might not be able at that meeting to have a detailed discussion on the paper, but he should like to have their general reaction to the problem.

7. In addition to the factual material he had mentioned and the paper on mechanisms, Management had prepared some other notes to help illuminate the discussion. Those included a note on burden-sharing indicators, following remarks made by the delegate of Japan in Abidjan. And there was a paper on liquidity policy, called for by the Board of Directors but not yet discussed by them. He would be grateful if Deputies could take those away and look carefully at them before getting to the relevant discussion item.

8. Once the agenda had been approved and the summary records adopted, Deputies should take the issues in blocks, broadly on the basis of the four staff papers already distributed. He proposed that Deputies slot into those the appropriate questions listed in his own note at the back of the folder and he hoped that Deputies were prepared to tackle all parts of the examination paper! If all went well Delegates might succeed in finishing by lunch time on Sunday, but it would certainly be unsafe for them to make reservations to leave on Saturday evening.

9. He reminded them that they were up against a very tight timetable indeed, if they were to bring ADF-VI into force without creating yet another grave hiatus for lack of new commitment authority. He would particularly like to know which of the Delegates had deadlines that year for obtaining authority for contributions in 1991, and what those deadlines were. Taking those into account, Deputies should then need to fix the remaining meeting schedule so as to complete the negotiations before those deadlines.

D/ES

ADOPTION OF THE AGENDA (agenda item 1)

10. The **REPRESENTATIVE of CANADA** observed that no indication had been given in the agenda of the item under which sectoral priorities would be considered. She would prefer that the issue be considered when discussing the document on ADF strategy on poverty alleviation since the sectoral allocation was closely related to the overall strategic approach outlined in that document.

It was so decided.

The Deputies adopted the agenda of the Second Consultative Meeting on the Sixth Replenishment of ADF Resources indicated above.

ADOPTION OF THE SUMMARY RECORDS OF THE FIRST CONSULTATIVE MEETING (ADF/ZF/MTR/-ADF-V/CM/RR/VI/SR) (agenda item 2)

11. The **REPRESENTATIVE of the UNITED KINGDOM** drew attention to paragraph 569 of the document and observed that the import of the said paragraph was contrary to what he had said. He would therefore be grateful if Management could make the necessary amendments.

12. The **CO-ORDINATOR** observed that considering the pressure under which members of the Bank staff had worked, coupled with the fact that staff in the secretariat services were not familiar with some of the issues raised, Management could be commended to some extent for the quality of the records. He, however, believed that Deputies had not had enough time to read them thoroughly and therefore suggested to his colleagues to defer their adoption to the subsequent meeting. Meanwhile, Deputies with amendments could communicate them in writing to the Office of the Secretary General for incorporation into the final text.

It was so decided.

The Deputies decided to defer the adoption of the summary records of their previous meeting to the November meeting scheduled to take place in Rome. Meanwhile, Deputies with amendments should communicate them to the Office of the Secretary General for incorporation into the final text.

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ELIGIBILITY AND COUNTRY ALLOCATION (ADF-VI/CM.2/90/03) (agenda item 3.1)

13. The **REPRESENTATIVE** of the **UNITED STATES** of **AMERICA** welcomed the various delegates, the President and staff of the ADB to Washington. He said that his country was delighted to participate in the meeting and looked forward to very fruitful discussions in preparation for subsequent meetings.

14. The agenda of the meeting was ambitious because it was in connection with essential issues on the replenishment exercise. As he had emphasized at the previous meeting, the most critical aspect of the replenishment negotiations for his Government was to ensure that the scarce resources of the Fund were allocated on the basis of needs and the capacity to use those resources effectively. Economic performance should be the key to fund allocation decisions. That meant that allocations should go to countries pursuing sound economic management, making efforts towards economic reforms and poverty alleviation as well as sustainable long-term economic development. The current proposals put forward by Management did not adequately address the revision of fund allocation system to take that concern into account. In fact, the proposal kept fundamentally intact the current allocation system which, he believed, was the primary cause for poor quality loans. He was therefore requesting Management to submit by the next meeting a new proposal for a revised allocation system based on performance.

15. Loan quality remained an important issue in any Fund replenishment exercise. If some progress had been made with regard to reforms agreed to under the previous replenishment, he had seen little evidence of any improvement in loan quality. It was essential that reforms should be henceforth integrated into the Fund's operations and used effectively as management tools. He would be recommending a framework for that process during the course of the meeting.

16. It was also critical that the African Development Fund lending should continue to focus on the poorest countries. Eligibility to fund resources should not therefore be enlarged to include category C countries. In addition, a significant and real effort should be made to ensure that at least the vulnerable members of the society particularly women and the poor benefited from Fund lending.

17. Furthermore, progress on environmental issues including the commitment to hire staff and establish the policy and procedural infrastructure to prepare environmental impact assessment on all loans with environmental impact should be completed by June 1991.

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18. Finally, his Government would like to be informed about the outstanding personnel reforms that must be undertaken with high priority to the hiring of new personnel prior to the implementation of a larger lending programme. The United States was committed to the above policy and operational changes because his Government believed they were in the best interest of the institution and its borrowers. Without fundamental changes in the Institution, his Government was prepared to reduce U.S. participation to minimum levels. In order to secure those changes, the United States was ready to continue discussions for as long as necessary; even beyond January 1991. He felt that in the absence of those changes, it would be difficult to provide effective use of scarce concessional resources to Africa. He therefore hoped that concrete progress would be made in addressing the fundamental issues of quality and effectiveness of African Development Fund operations. He also expected that many of the reforms Deputies would be talking about at that meeting and subsequent ones would be eventually translated into fundamental reforms in Bank operations as well.

19. The **CO-ORDINATOR** observed that the issues raised by U.S delegate would be considered in detail during the course of the day. He suggested that the point concening staff redeployment be examined after the items on poverty alleviation and the environment.

20. The **REPRESENTATIVE of the UNITED KINGDOM** agreed that eligibility could be defined on the basis of relative poverty as measured by GNP per head. He welcomed the tendency under the previous replenishment towards greater concentration of resources on the poorest countries and would like to see that process intensified. For that reason, he was in favour of the retention of the current cut-off points, i.e., US\$510 for category A countries and US\$990 for category B countries. He however wanted to know the rationale for splitting category A countries into sub-divisions A1 and A2. If there was no operational significance to that sub-division, he felt that it could be simply abolished.

21. The **REPRESENTATIVE of the NETHERLANDS** said that he was willing to accept the proposal to maintain the current country categorizations but that the GNP figures should be updated. He also agreed that the distinction between category A1 and A2 countries should be abolished because there was no difference between the two categories.

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22. With regard to Management's proposed scenarios on Nigeria, he said that he would prefer scenario 1 which he felt could be an acceptable compromise on the issue. In the case of Namibia, he drew attention to the fact that the country had just attained independence and therefore deserved special treatment from the international community. On the other hand, he did not feel that making exceptions under the ADF was an effective solution. He would suggest raising the cut-off points used for country categorizations so that Namibia could be eligible for a limited amount of the Fund's resources without necessarily penalizing more deserving countries.

23. The **REPRESENTATIVE of ITALY** drew attention to paragraph 3.1 of the document and observed that country performance as a criterion for resource allocation had not been adequately emphasized. He was not satisfied with the current practice of putting more emphasis on political dimensions at the detriment of quality operations. He believed that efforts at poverty alleviation should be subject to considerations connected with project quality.

24. The **REPRESENTATIVE of DENMARK** felt that the present criterion on eligibility was adequate and satisfactory and should therefore be maintained. The GNP figures should, however, be updated and category C countries should not be eligible to Fund resources.

25. Like other speakers, he did not see the need for the distinction between country categories A1 and A2 and unless a strong case could be made for such a distinction, it should be dropped. The prevailing circumstances made it very difficult to reach a consensus on the Nigerian issue at that meeting given that Nigeria was an oil producing country.

26. As for Namibia, he agreed that the case was a special one since the country was a newly-independent State. His preference would be that a special arrangement be made for the country under ADF-VI rather than tampering with the general rule on the GNP cut-off points.

27. The **REPRESENTATIVE of CANADA**, in her general remarks, thanked Management for the quality of documents submitted. She observed that the needs of Africa were expanding. The international community was willing to give assistance and as she had emphasized at the Abidjan meeting, Canada believed that Africa would continue for a long time to feature prominently in its programme of assistance. It was however crucial to ensure that emphasis was placed squarely on the quality of projects and efficiency of operations in view of the budgetary constraints of donor countries.

D/ES

28. Deputies had gone through the painful process the previous year of reviewing the operations of the Bank and the Fund. The outcome of those deliberations had a direct bearing on the approach to the present negotiations. Progress on matters arising from that review would form the basis of decisions to be taken on the proposals submitted by Management. The aim of Canada had always been to work in concert with other countries to build the best possible institution to meet Africa's undoubted needs.

29. On the question of eligibility, she had no difficulty with the basic proposals put forward for the maintenance of country she felt that categories but like previous speakers, category C countries should not be eligible for ADF resources. She also wanted to know the justification for the distinction between sub-categories A1 and A2. With regard to Nigeria, she endorsed the view expressed by her Danish colleague.

30. With reference to Namibia, she was willing to accept as an exceptional case, Namibia's eligibility to ADF-VI resources in order to address the very specific problems of the country during its transitional phase.

31. The **REPRESENTATIVE of BELGIUM** said that the documents for the meeting were received belatedly and that was why some of her statements might appear incomplete. She observed that the developments on the world scene since the Abidjan meeting in June, had brought about many changes that could have an effect on the development prospects of most countries. The full impact of those changes were yet to be assessed. It was therefore essential that the limited concessional resources were effectively allocated to the poorest countries and on the basis of performance.

32. With regard to eligibility, she agreed with her colleagues that the poverty criterion should be given priority in determining countries eligible for Fund resources. Her position was flexible with reference to the existing distinction between sub-categories A1 and A2 countries.

33. On the basis of GNP per capita, Nigeria could be put under category A but given the current period of uncertainty in view of the increase of oil prices, the country could be safely excluded from that category. However, as suggested by her Danish colleague, a final decision on the matter should be deferred.

D/ES

34. It might be true that Namibia was facing difficulties but the argument in support of a special treatment to be given to that country because of the unequal distribution of wealth posed some problems. The GNP per capita was quite high and contrary to the view expressed by the Dutch Deputy, she was not in favour of changing the cut-off points for country categorization to enable Namibia to become a category B country. A decision had to be taken on the country's specific merits and characteristics and any consideration given to Namibia under ADF-VI should be on an exceptional basis as suggested by the Canadian delegate.

35. The **REPRESENTATIVE of SWEDEN** thanked Management and the Co-ordinator for the excellent preparation of the meeting. She said that her country attached great importance to the need for improving the Bank's capacity to provide good quality loans and supported adjustment and policy reforms in borrowing countries in combination with poverty reduction and the creation of an environment conducive to sustainable development. The Bank was an important development instrument in the region and it should be able to serve the needs of regional member countries.

36. Like her colleagues who had preceded her, she was willing to maintain the current categorization of borrowing countries with updated GNP figures as guide to eligibility. With regard to Nigeria and Namibia, she entirely supported the views expressed by her Danish colleague.

37. The **REPRESENTATIVE of SWITZERLAND** endorsed the views expressed so far on country eligibility. He invited Management to justify the existing distinction between categories A1 and A2 countries. As regards Nigeria, he would go along with the point of view of his Danish colleague. With regard to Namibia, he believed that the case was an exceptional one and that the country could be given a special treatment under ADF-VI.

38. The **REPRESENTATIVE of FRANCE** pointed out that the meeting was taking place at a time of great uncertainty in view of the Gulf crisis which would definitely have a negative impact on the economies of the non-oil producing African countries. There was therefore need for the Deputies to be concerned.

D/ES

39. The criterion on relative poverty should be maintained for the determination of countries eligible for Fund resources. In fact, the eligibility criteria previously used were adequate. But over-emphasizing the GDP per capita criterion would lead to the exclusion of countries that really needed concessional resources.

40. Referring to the case of Nigeria, he said that he was reluctant to change the country's category even though its per capita income could justify such a change. Account should be taken of its status as an oil producing country. The GNP per capita of Namibia, on the other hand, was quite high and the argument used for the country's exceptional eligibility for concessional resources was not convincing. He believed that making exceptions for transitional cases could lead to problems in future.

D/ES

41. The REPRESENTATIVE of FINLAND supported the allocation and eligibility criteria presented by Management since they were in relation to poverty alleviation; a concept which would feature prominently at the current negotiations. If modifications were required in the light of changing conditions with particular reference to the situation in the Gulf; those criteria could of course be reconsidered.

42. She agreed that the distinction between sub-categories A1 and A2 should be reviewed and might in fact well be abolished.

43. Nigeria presented a difficult case. She would favour the first option presented in paragraph 5.1, but that choice should be subject to review in the light of future developments.

44. For the time being, Namibia constituted a special case since it was a newly-independent country with many teething problems. She would therefore support giving it favourable consideration. Nevertheless, Management should closely follow-up the GDP per capita income in that country as well as the treatment to be given to Namibia by other Institutions. She recalled that the country had already applied for a least developed country status.

45. The REPRESENTATIVE of SPAIN said he would agree to the present categories if the per capita GNP figures were updated. He also agreed that relative poverty should be the main criterion for allocation of Fund resources.

D/IP

46. With reference to Nigeria, if delegates accepted the GDP figures as a parameter for country eligibility for ADF resources, then Nigeria should qualify for concessional funds.

47. He favoured the first of the two options presented in chapter 5 on Nigeria. With regard to Namibia, he agreed that it should have access to TA funds under the sixth replenishment. However, differences of per capita income within the country should not be taken into account in establishing eligibility.

48. He did not favour granting category C countries access to ADF resources, but considered that an exception could be made in the case of Namibia with respect to TA funds.

49. The **REPRESENTATIVE of JAPAN** supported maintaining the present criterion country eligibility. With regard to Nigeria, he could support either of the two options presented. In the case of Namibia, he saw no reason to make an exception for that country, because income disparity was not peculiar to Namibia alone.

50. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** associated himself with the views expressed by the representatives of Denmark and Canada on the cases of Nigeria and Namibia.

51. He was of the view that poverty alleviation, country performance and environmental protection would be the major and dominant concepts in development financing circles during the 90s. They had to be therefore taken into serious consideration during those negotiations. There was the growing awareness to make marked progress in crucial areas such as economic reforms, good governance and individual rights to actively participate in the economy. He would encourage the Bank, which had made progress in recent years, to improve its performance and to continue with increased efforts in those areas. There would undoubtedly be a link between the future availability of scarce concessional resources and a clear agreement within the context of ADF replenishment on increased performance not only of the Institution but of the recipient countries and their willingness to realize reforms and actively engage in poverty alleviation. He was sure that Delegates would make progress on those important issues during the present and future meetings, as all of them shared the common interest of providing sufficient funds for the ADF that could be used effectively to improve the living standards of the poor and help put the economies of the recipient African countries on a solid base.

D/IP

52. The **REPRESENTATIVE of PORTUGAL** said that he supported the consensus on the eligibility criteria. She too would like the elimination of the distinction between A1 and A2 countries. She agreed in principle that Namibia should be given Fund support. She would express her view on the Nigerian issue in due course.

53. The **REPRESENTATIVE of the UNITED STATES of AMERICA** referring to the of eligibility and allocation, said he believed that the ADF lending should continue to focus on the poorest countries. Consequently, he would not support the proposal to extend eligibility to Fund resources to Category C countries even if such lending was to be limited to the social sector. Concessionalism was for countries not for projects. Furthermore, Category A countries should be restricted to the soft loan window of the ADB Group given the already difficult financial situation of those countries. He would agree however, that up-dated version of the per capita income figures should be prepared.

54. With regard to Nigeria, a study had been carried out on lending to that country as well as to Category B countries in general over the previous three years. That study showed that Nigeria received an equivalent of FUA 572 million from the ADB Group over the period in question. Eight countries currently in Category B received about FUA 2.87 billion. Clearly, if an appreciable level of that lending could have been transferred to the Fund, it would have had significant budgetary implications. In the case of Nigeria, increases in oil prices had provided much needed additional income in the short-term although it would be difficult, if not impossible, to predict what the ramifications were going to be; how long the situation was going to last or whether there would be further increases in the price of oil. Nevertheless, Nigeria's problems were now less pressing, considering the current market price for crude oil.

55. Other smaller Category B countries such as Côte d'Ivoire and Cameroon had more pressing problems. The United States was requesting Management to prepare a country by country analysis of Category B countries including their debt situation and economic and financial prospects over the sixth replenishment period. The document should be submitted at the subsequent meeting to enable Deputies to further examine the issue.

56. According to Management's paper on eligibility and country allocations, Namibia had a per capita income of US\$ 1,062. The country should not therefore be eligible to Fund resources.

D/IP

57. With regard to resource allocation, the United States Government would want the allocation under the ADF-VI to be primarily performance-based with explicit criteria on economic reforms, poverty alleviation, environmental protection and women in development. It should be the responsiveness of the borrowers to the Fund that should be monitored and encouraged.

58. He did not believe that Management's proposals went far enough in reviewing the current allocation system with a view to transforming them into performance-based criteria. He felt that the current allocation procedure was responsible for the poor quality of Fund loans. The Fund Management could easily obtain the performance-based criteria and programming system currently used by IDA and the USAID. He would also request staff members to submit by the next meeting a proposal on a revised allocation system based on performance. He would suggest that Management meet with World Bank staff to familiarize themselves with IDA allocation formula in order to strengthen the said proposal. He was also willing to provide the resource allocation methodology used by his Government.

59. He had observed from earlier discussions that Deputies were concerned about countries that were currently poor performers but which nevertheless needed substantial resources. Under a performance oriented system using the criteria he had indicated earlier, some resources would still be made available to maintain a core programme along the lines agreed upon under IDA-9. However, the intent of the system was that the bulk of resources would go to the better performers i.e., countries that were more responsive to the reforms sought by State Participants. In that way, scarce concessional resources would be used most effectively.

60. The **REPRESENTATIVE of the UNITED KINGDOM** referring to the general issue of up-dating the GDP figures wanted to know what the figures of US\$ 510 and US\$990 actually corresponded to. He also wanted clarifications on the methodology used to produce those revised figures.

61. With regard to the cases of Nigeria and Namibia, he would like to state at the outset that eligibility to ADF funds should be determined objectively and that there should be absolute minimization of special cases. In that spirit, he expected that the recent dramatic upswing in oil revenues should be taken into account in assessing Nigeria's needs for concessional assistance under the ADF-VI period.

D/IP

62. Having said that, if Nigeria were to qualify for Category A, there would be a problem in the sense that its large population could distort the resources allocation process and that could be detrimental to traditional recipients. It would therefore be necessary to have some guidelines and restrictions on the extent of Nigerian access to Fund resources. However, it appeared that option I in the document could be unreasonably restrictive if Nigeria turned out to be a Category A country. Option II seemed to him more satisfactory although perhaps it was a bit too complex to apply; a simple percentage limit for Nigerian access might be more transparent.

63. With regard to the case of Namibia, he agreed that there was a case for some element of special treatment. However, with Namibia's current GDP per capita of US\$ 1,062 his position would be identical to that of the Spanish delegate who said that, as a general rule, Category C countries should not have access to ADF-VI resources. The United Kingdom would nevertheless accept that Namibia be accorded limited access to Technical Assistance Fund under ADF-VI.

D/IP

64. Mr. KARIISA (ADB) explained that the sub-division of Category A countries into groups A1 and A2 was in accordance with the request made by State Participants during ADF-IV negotiations. It was however, useful to note that in practice, the distinction had no incidence on resource allocations. Management was therefore ready to drop the said distinction if it was the express wish of State Participants.

65. On the second issue, he explained that the \$990 was a nominal figure. It was however difficult for him at that point to determine the real equivalent value of that nominal figure; that information would be made available later.

66. The CO-ORDINATOR asked Mr. Kariisa to remind the delegates of the figures contained on the proposals as well as the changes brought about by them in the categorization of countries.

67. Mr. KARIISA replied that the use of the \$990 cut-off point brought about significant changes in country categories; in fact, Senegal had moved out of Category A into Category B. That was a very special case given that Senegal, being a participant in the Special Programme of Assistance for Africa, should normally be eligible for concessional resources only.

68. Other changes were in relation to Cameroon which was now in Category C while Congo had gone down to Category B and Nigeria to Category A.

69. The **REPRESENTATIVE of the UNITED KINGDOM**, in reaction to the answers provided, pointed out that the GDP figures were not updated and that it would be difficult to determine their impact on country categories. He was convinced that the revised figures would be visibly higher and the tables on movement of countries from one category to another would surely be different. He therefore stressed that the figures be updated failing which his delegation would find it difficult to take a decision now on the issue.

70. Mr. **KARIISA**, clarifying the point, explained that the figures given (\$510 and \$990) were 1988 GNP per capita figures; it was only a question of their nominal value as against their 1987 real value. As such, the nominal value of those figures had been updated.

71. The \$990 to which he had made reference had been adjusted and if the inflation factor was to be added, would undoubtedly be higher. All other figures had been updated to the 1988 value : the GNP and population figure were those of 1988 as published in the World Bank report. He emphasized that the figures in the first and second columns were 1988 figures and not those of 1986 or 1987 and that the methodology used was that of the World Bank.

72. The **REPRESENTATIVE of the UNITED KINGDOM** said that his delegation could then accept the \$510 and \$990 figures in terms of nominal value.

73. The **REPRESENTATIVE of FRANCE** recalled his initial position which consisted in actually taking the \$510 and \$990 figures as they were. He however said that it was necessary to closely study the issue of eligibility to the Special Programme of Assistance for Africa, especially for countries that had moved from Category A to Category B. In that regard, he expressed the hope that the case of Senegal would be resolved favourably.

74. As for the inverse movements of Congo and Cameroon, he found it difficult to understand how Cameroon moved up to Category C and Congo down to Category B during the time lag between the data provided. It would be advisable to review those figures.

75. The **CO-ORDINATOR** replied that the experts would cross-check the figures for the issue to be further discussed later.

76. He observed, at that stage of the deliberations that there had been a general consensus on the adoption of the \$510 and \$990 as the basis for country categorizations. In view of the explanations given by Management, he took note of the fact that it was not necessary to maintain the distinction between sub-categories A1 and A2 introduced under ADF-IV.

77. As for the special case of Nigeria, he could say that judging from the present GNP per capita, Nigeria belonged to Category A. He had not, however, reflected all that was said on the issue and recalled that the issue was to be given further consideration. Nevertheless, he noted that several delegates accepted Option A. United Kingdom and France were of a different view and a State Participant requested that the issue of Nigeria be postponed to the subsequent meeting, while additional information would be sought on the trend in oil price. The delegates would therefore come back on the issue at an appropriate time.

78. As regards Namibia, the Co-ordinator observed that there had not been any agreement on Management's proposal that Namibia be given access to concessional resources on the basis of income disparity in the country. He, however, noted that some delegations were agreeable to the country's eligibility for technical assistance. Delegates would consider the issue in detail during the discussions on the TAF.

79. The responses to the question as to whether Namibia should be treated as a special case was not quite clear; that was why Management should define clearly what it meant by special case. He recalled the very strong point of view put forward by Japan that there was no justification in making Namibia's case a special one.

80. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** drew his colleagues' attention to the fact that during the conference in Paris on least developed countries (LLDCs) two weeks earlier, a resolution was adopted on the admission of Namibia into the fold of LLDCs. The reasons were as follow: firstly, even if its GDP was very high from the statistical point of view, there were visible inequalities between the various regions of the country; secondly, there was the international will to assist the country, following its extremely painful struggle for independence.

81. As regards Nigeria, he agreed with the Co-ordinator's summary that the discussion should be kept open, considering the present uncertainty in the trend of oil prices.

82. The **REPRESENTATIVE of ITALY** noted that 9% of total resources would be earmarked for poverty alleviation and country performance and that 22% would be directed towards policy-based programmes. In his opinion, such allocations were absolutely unfair.

83. The **REPRESENTATIVE of FRANCE** recalled that like Japan, he had expressed strong reservation on the idea of treating Namibia as a special case. He therefore hoped that account would be taken of that in the summary of the discussions.

84. He also recalled having asked about the case of countries eligible for the Special Programme of Assistance (for Africa) that had moved from Category A to Category B and wanted to know whether the idea of the reconstituted A2 category applied to those special cases. If the answer was in the affirmative, he would say that it was not a good solution. That was why he wanted the discussion on the issue to be left open.

85. The **CO-ORDINATOR** agreed that discussions should not be closed on Namibia and Nigeria. The issue of countries eligible for the Special Programme of Assistance (for Africa) but whose categories had changed would be tackled during the discussions on eligibility and the allocation of resources for policy-based lending since they were inter-related.

86. He observed that the many delegates had expressed the desire to make a positive gesture towards Namibia but not for reasons of income disparity; he in fact admitted that there had been no consensus on that point.

87. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** said on the Namibian issue that it was simply a question of a symbolic gesture of solidarity aimed at assisting the country during its extremely difficult phase of transition to economic independence now that it had acquired its political independence.

88. The **REPRESENTATIVE of the UNITED STATES of AMERICA** recalled that he had equally expressed reservation on the eligibility of Nigeria and Namibia for the Fund's resources. His delegation was of the view that the reasons given were not strong enough for those countries to be eligible.

89. The **REPRESENTATIVE of the NETHERLANDS** expressed some reservation on the A2 Category that had been re-established. He was in fact of the view that once created, many countries would apply to be there.

90. With regard to Namibia, he felt that the general opinion was that treating the country as a special case would give rise to many problems. He, however, observed that most delegations were ready to make a positive gesture to Namibia without necessarily losing sight of the fact that the country should not excessively absorb ADF resources. In any case, one should expect some positive trends in Namibia in a few years and the GDP figures would then be higher than the ceilings to be fixed under ADF-VI.

91. The **REPRESENTATIVE of AUSTRIA** wanted Deputies to consider further the issue of adjusting GDP per capita figures and how to treat the case of Nigeria. With regard to Nigeria, he was convinced that the GDP per capita would increase considerably if the price of oil continued to rise. With all the on-going events, the information provided by Management would be overtaken by events and they would obviously have to be updated.

92. The **CO-ORDINATOR** felt that it would be useful for the Bank Group's economists to contact their World Bank counterpart to obtain updated figures especially after Namibia's accession to Bretton Woods. Considering the current unstable situation, he admitted that it would be difficult to collect accurate data; that was why it was necessary to make do with available figures so that Deputies could come back to outstanding issues at an appropriate time.

93. He, therefore, invited delegates to focus attention, on the issue of country allocations and called upon Management to make a summary of the document.

94. Mr. **KARIISA** explained that the allocation of resources under ADF-VI would be a out at various levels :

- (i) 10% of the total resources would be allocated to the Technical Assistance Fund;
- (ii) 90% of the outstanding amount would be allocated to Category A countries and the remaining 10% to those in Category B. The ADF-V categorization had been maintained, the innovation was the "performance allocation";
- (iii) 25% of the resources earmarked under (ii) would be devoted to policy-based loans. That portion would be allocated later depending on the efforts made by the countries concerned in the area of policy reforms and according to needs (the co-ordination mechanism of the special programme of assistance to Africa II would provide the necessary orientations;

- (iv) 10% of the resources earmarked under (ii) would be allocated to countries on the basis of their macro-economic performance and in accordance with efforts made in the area of poverty alleviation, environment, the integration of women in development;
- (v) the remaining resources i.e., the 65% of the allocation to (ii) above would be made according to the criteria spelt out under ADF-III. There had been some modifications in the weightings given to the GNP per capita and population criteria. But generally speaking, the bulk of the resources would go to the poorest countries.

95. Annex I of the document contained a comprehensive table on allocations by criteria; calculations were done, for illustrative purposes, on the basis of the scenario IV on country allocations.

96. The CO-ORDINATOR wanted to have the views of delegates on the treatment to be given to the technical assistance factor, the weighting to be given to country performance as against the real needs of those countries as well as the definition of the term "performance".

97. The REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY pointed out that the criterion on performance had been chosen as one of the key criteria during the IDA-9 negotiations concluded some months ago; he wished therefore that the same importance be attached to it under ADF-VI.

98. As regards the volume of resources to be allocated to policy-based lending (iii as contained in Mr. Kariisa's presentation), he said that his delegation was rather in favour of a 20% ceiling while wanting to see the Fund acquire more experience on the matter.

99. As for the 10% of resources (iv as contained in Mr. Kariisa's presentation) and the 65% of outstanding resources (v as contained in Mr. Kariisa's presentation), he observed a slight difference from what was contained in the IDA-9 document on core programmes. Management's proposal gave the impression that resources would be allocated to countries notwithstanding their performance. If that was the understanding, then his delegation would be opposed to it.

100. He was aware of the fact that the problem was to determine how to measure performance; the issue therefore deserved further reflection.

101. The **CO-ORDINATOR** stressed the need to improve country performance. But the issue at stake was the the method to follow for the equitable allocation of resources.

102. As regards policy-based lending, the figures had been based on the ADF-V indicative figures. It had been proposed to change the substance of the lending instrument and not the amount. Resources would thus be allocated on the basis of performance.

103. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** said that he had not only expressed the view of his delegation but also drawn the attention of his colleagues to the IDA-9 conclusions on country performance core programmes. He reiterated his suggestion that those conclusions be tailored to the ADF-VI context while keeping in mind, Mr. Conable's statement on poverty and country performance.

104. The **REPRESENTATIVE of FRANCE** was not against proposals to allocate 10% of resources to the Technical Assistance Fund. He had taken note of the fact that delegates would come back later on the method of improving the utilization of TAF resources.

105. His delegation supported Management's proposal to allocate 25% of resources to policy-based lending. The SPA-II showed clearly that countries had great need for resources of that kind.

106. The French delegation further re-affirmed the close link that should exist between ADF policy-based loans and those of the World Bank.

107. As regards the new factors concerning the special percentage for performance, the French representative expressed some concern about that concept and stressed that it was rather important to find ways and means of improving performance generally in the first place.

108. As for the remaining 65% of resources, the criteria contained in paragraph 4(v) of the document were quite valid. Nevertheless, the French Representative wondered whether it would be possible to lay particular emphasis on the poverty alleviation criterion to which his government gave high priority.

109. It would also be useful to study the possibility of introducing a criterion on the trends in the distribution of per capital gross domestic product. The issue deserved to be studied even if technically speaking the criterion was difficult to establish, . There were probably some mechanical methods of using the trends in income disparity as a specific criterion for resource allocation.

110. The **REPRESENTATIVE of the UNITED KINGDOM** agreed with Management's proposal to allocate 10% of resources to the TAF. He hoped that in future the technical assistance component would be more frequently integrated in projects and reduce the tendency of considering its operations as autonomous.

111. He had no objection to the percentage allocated to categories A and B countries but felt that the criteria on the Fund's presence and unfavourable geographical location were not very pertinent.

112. He commended the efforts made to give substantial weighting to country performance and subscribed to the views of his German colleague who had drawn attention to the IDA-9 conclusions on the matter. The classical criteria on GNP per capita and population should not, in his view, be considered as an absolute right; country performances were equally important and efforts made to alleviate poverty should be considered as performance. Instead of considering the performance factor in absolute figures, it was necessary to study the possibility of its integration in all Fund activities with a view to establishing an equitable system and appropriate sources of motivation.

113. The United Kingdom delegation endorsed the proposal for a special allocation to policy-based lending; it was difficult for them to determine an appropriate percentage at that stage. It should be pointed out that the IDA Management envisaged allocating a very small percentage of resources to policy-based lending under SPA-II; In that regard, it would be useful to know Fund indicative figures on the issue to be able to take a decision on the appropriate level of that type of lending under ADF-VI. It would also be necessary to reinforce the eligibility criteria on policy-based lending. It would in fact be useful to take account of the progress made within the framework of adjustment programmes on a country by country basis. Being eligible for the SPA was not in itself a sufficient indicator.

114. The **CO-ORDINATOR** assured delegates that they would discuss some of those issues when considering specific points on policy-based lending and debt reduction.

115. The **REPRESENTATIVE of CANADA** subscribed to some of the observations already made. The proposed criteria on country allocations posed a problem. In principle, a purely mathematical approach was not satisfactory to her. Even in practice some proposals put forward were not convincing. Consequently, it was necessary for Management to make a comprehensive study of the issue with a view to proposing a more integrated approach that could facilitate the integration of qualitative criteria in the country programming process.

116. The Canadian delegation would like to see the resource allocation procedure based on country strategies, the policy dialogue with member countries and indicators such as performance. Policy based lending should also form part of the dialogue with member countries. Furthermore, whatever the percentage allocated to policy-based lending should be an integral part of country allocations. It should not necessarily have to be a separate window.

117. The Canadian delegate endorsed the 10% earmarked for the TAF as well as the access of Category C countries to the Technical Assistance Fund.

118. She accepted the proposal to allocate the remaining 90% to Category A countries and 10% to those of Category B. She shared the views of her colleagues who had said that the criterion on the Fund's presence was not very pertinent.

119. Delegates had been requested to give directives on how to evaluate performance. She was of the opinion that there was need to make an in-depth study of the issue and to widen the scope of the discussion. Nevertheless, she could say at that stage that account should be taken of undertakings on the part of member countries to carry out policy reforms. Added to that could be factors such as social conditionality and economic performance as defined in the UNDP human development index and at World Bank meetings on social conditionality. She did not believe that a very restrictive approach should be adopted with regard to the definition.

120. Furthermore, the Canadian delegate stressed that she would not endorse a rigid system of country allocation. Management could work on the basis of an indicative amount as that would give it more flexibility in allocating resources according to the needs of member countries and their respective absorptive capacities.

121. She was aware of the workload that those observations would impose on Management and advised that the staffing implications should be considered. The Fund would be required to develop analytic capacities and planning and her Government would not object to considering related manpower proposals from Management.

122. The **REPRESENTATIVE of DENMARK**, referring to paragraph 4.1 of the document concerning country eligibility and allocations (ADF-VI/CM.2/90/03) said that his delegation had no objection to the proposal that 10% of the total resources of ADF-VI be allocated to the Technical Assistance Fund. Nevertheless, considering the problems aroused by the issue, that percentage could be scaled down a bit, without necessarily reducing it to 5%. As such, the Danish delegate supported speakers who had emphasized the need to give priority to project preparation. He could also accept the proposed 9:1 ratio for the allocation of resources to categories A and B countries. On the policy-based lending, it was important to stress country performance so that those loans could not be included in the normal allocations. As for the definition of performance, the Danish delegate felt that the participation in the Special Programme for Africa was a valid criterion and should remain a major criterion on the allocation of resources.

123. While supporting the idea of giving more weighting to the performance criterion, the Danish delegate drew attention to two problems relating to the definition of the concept itself and its implications. In any case, it was certain that, based on a given definition, one would be more inclined to increasing the resource percentage earmarked in sub-paragraph (iv) of paragraph 4.1.6 than that earmarked in sub-paragraph (v).

124. The **CO-ORDINATOR** drew attention to the document on the commitment capacity as at end of August 1990 (ADF/BD/IF/90/81) which highlighted the trends in the Technical Assistance Fund commitments for institution building and operations. The trend went in the right direction and Management had started the compilation of figures to show how the Technical Assistance operations had led to loan operations.

125. The **REPRESENTATIVE of FINLAND** felt in the same way as previous speakers that resources allocated to the Technical Assistance should be project-tied. The exact percentage of resources to be allocated to the TAF could be determined later. She could accept 10% for the TAF and 9:1 ratio for the distribution of the remaining 90% among categories A and B countries. In that regard, it would be useful to know the percentage of resources received by Category C countries.

126. As regards policy-based lending, the Finnish delegate did not quite understand what the various percentages on page 5 of the document stood for. It was said, for example, that 10% of the resources would be allocated to performance, especially in the area of environment when in fact account should be taken of that aspect in all allocations including poverty alleviation in its broadest sense.

127. The 65% mentioned in sub-paragraph (v) was too rigid and one hardly saw the relative importance given to four criteria - GNP per capita, population, the Fund's presence and unfavourable geographical location - referred to in sub-paragraph (v). It would be better to clarify those concepts to see the impact of their application on country allocations. The Finnish delegate expressed reservation on that point.

128. The **CO-ORDINATOR** pointed out that the 10% of resources to be allocated to performance were aimed at "compensating" somehow, the efforts to be made by countries in areas such as the environment and poverty alleviation.

129. The **REPRESENTATIVE** of the **NETHERLANDS** said that his delegation supported the proposed 10% allocation of ADF resources to the TAF with emphasis on project preparation as suggested by the French delegate - as well as the proposed indicative allocation to Category A and B countries since such a formula should not be rigid. Furthermore, if he accepted that policy-based loans should be granted on the basis of efforts made by countries within the framework of the Special Programme of Assistance for Africa (SPA), he would object to the proposal that those loans account for 25% of the total resources.

130. Referring to the Co-ordinator's observation that resources allocated for performance could be considered as a "reward", the Netherlands representative pointed out that performance should be an integral part of the policy of every country, developed or developing. It would therefore be appropriate to combine sub-paragraphs (iv) and (v) of paragraph 4.1 in order that account could be taken of performance spelt out in sub-paragraph (v).

131. With regard to the definition of performance, reference could be made to the three criteria used under the IDA : short- and long-term economic management, efforts made by the Government towards poverty alleviation, and the impact of technical assistance on project implementation, not forgetting, of course, the compliance with project conditions.

132. The **CO-ORDINATOR** recalled that the French delegate had made a specific proposal that 80% of resources allocated to the TAF be tied to project preparation and implementation.

133. The **REPRESENTATIVE of PORTUGAL** stressed that the utilization of resources allocated to the TAF must be increasingly project-tied. As far as policy-based lending was concerned, she wanted to be assured that sectoral loans would be taken into account. Regarding the criteria proposed for the allocation of 65% of Fund resources in sub-paragraph (v), the Portuguese delegate felt that the criterion on the Fund's presence was not really pertinent and that more weight should be given to the criterion on unfavourable geographical location particularly landlocked countries.

134. The **REPRESENTATIVE of AUSTRIA**, like the Canadian delegate, was of the view that the system of allocation was too rigid and should be reviewed. In that regard, the performance criterion was considered exclusively from an economic point of view, whereas it ought to comprise poverty alleviation and the environment as well.

135. It would have perhaps been necessary to make provision for the allocation of 20% of resources to adjustment lending and 20% for efforts made in the social sector, or in the areas of the environment and poverty alleviation. The Austrian delegate was thinking particularly about countries that should be encouraged in the area of basic education, for example. If those countries were assured of receiving 65% of resources, in fact, the tendency would be for them not to make enough efforts in that domain. More encouragement should be given to them if they were to really work hard to alleviate poverty. In that regard, the reduction in adjustment lending which could contribute to poverty alleviation was regrettable.

136. Concluding, the Austrian representative subscribed to the observations made by the Danish delegation on the Technical Assistance Fund.

137. The **REPRESENTATIVE of BELGIUM** was sceptical about the advisability of allocating 10% of resources to the TAF considering the results obtained from isolated interventions in the past. He would nevertheless support the proposal if assurances could be given about the effective utilization of resources. The suggestion to share available resources among Category A and B countries on the basis of 9:1 ratio was acceptable.

138. As for policy-based lending, the Belgian delegate, like the Dutch delegation, believed that it should be linked with the SPA. Nonetheless, the participation in the SPA should not be the only criterion for the granting of those loans. The percentage to be proposed for discussion could be in the neighbourhood of 20%.

139. With regard to other operations, emphasis should be put on the performance criterion. It should not be exclusively quantitative and account should be taken of results obtained in areas such as poverty alleviation, basic education, social services, etc.

140. The **REPRESENTATIVE of SWITZERLAND** recalled that the possibility of allocating up to 10% of resources to the TAF was first proposed under the previous replenishment of resources in 1987. Management made considerable efforts to attain that figure, but that was probably not absolutely necessary. Like the French delegate, he felt that part of that 10% should be tied to project preparation. He would also accept the 9:1 ratio proposed for the sharing of resources among Categories A and B countries. Policy-based lending on the other hand, should be closely linked to the SPA but 25% in that context could be considered as the absolute maximum.

141. The introduction of the performance criterion was a major innovation. Deputies had barely three months to study the issue in-depth, make a realistic proposal and to make the distinction between the criterion on country needs and that on performance.

142. The **CO-ORDINATOR** observed that the three-month deadline was too long as it would be necessary to move fast on such an important issue. He was of the view that Management could possibly be consulted for at least an initial definition before the end of that meeting. If a consensus was reached, it would be possible to prepare a broad definition on the performance criterion which, in view of existing precedents, should not be too difficult.

143. The **REPRESENTATIVE of SWEDEN** supported the proposal to allocate 10% of total resources to the TAF and to apply the 9:1 ratio for the allocation of resources to Categories A and B countries.

144. Like other delegates, the Swedish delegation felt that loans should be tied to the performance criterion. In that connection, it would be appropriate to go into policy dialogue with member countries taking account of their priorities, rather than holding rigidly on the two quantitative criteria. The performance criterion should apply to operations in the various fields of activity and should not only represent the 10% weighting.

145. As pointed out by the Austrian delegation, maximum encouragement should be given to countries in that regard, as was being done in IDA.

146. The Swedish delegation supported the proposal that policy-based lending should be tied to participation in SPA but the amount allocated should not exceed 20% of total resources.

147. The REPRESENTATIVE of NORWAY, referring to resources to be allocated to the TAF, held a similar view as the Swiss representative, that the said allocation could probably be less than 10% of the total resources. If however the 10% figure was maintained, 80% of those resources should be earmarked for project preparation as proposed by the French delegate. As for the sharing of resources between Category A and B countries the proposed 9:1 ratio was acceptable.

148. The issue of performance criterion was thornier: it was in fact not what the countries needed but what they had a right to expect as in the indicative planning figures system used by the United Nations Development Programme (UNDP). A review of the present system would be a positive indication in the sense that it could reflect the increased confidence donors had in the Fund's Management and maturity. On the other hand, there were risks involved in giving extended latitude particularly when one considered that it had not always addressed the concerns expressed by delegates in the past. The issue was also a complex one; doing the contrary would be tantamount to reverting to a mechanical and rigid approach. A quality criterion was necessary but it would not be easy to harmonize all the ideas that had been floated as well as to define a performance criterion that could be applicable to the many and varying areas without reverting to a rigid approach.

149. Consequently, a means of introducing a qualitative criterion into the principle of resource allocation should be sought. A basic allocation should be set aside for each country. The difficulty was that it was necessary to improve the quality of projects without necessarily creating a system that could jeopardize the effective utilization of resources.

150. The CO-ORDINATOR thought that the issue at stake was that of quantitative analysis. For instance, although no one denied that the Fund's presence was necessary in every country an element of analysis was all the same required. A middle ground should therefore be found.

The sitting was adjourned at 1.30 p.m. and resumed at 2.50 p.m.

151. Mr. SARR, in response to questions raised on the technical assistance facility, said that the observation made by the Belgian delegate on the exclusive utilization of TAF resources for the preparation and fast implementation of projects was quite acceptable to Management. As such, Management was willing to accept the proposal to allocate 80% of TAF resources to project preparation and implementation if the Deputies agreed that preference should be given to those activities within the framework of technical assistance.

152. He said that it was too early to assess the performance of the Technical Assistance Fund under ADF-V because of the time element involved. Time was required to prepare studies for submission to the Board of Directors. Time was also required for the study to be carried out after approval. Thus, any such analysis should be appropriate for previous replenishments. In the context of ADF-III, out of the thirty-two (32) studies financed by the Technical Assistance Account, thirty-one (31) were project-related. Out of the seventy-two (72) operations financed out of the TAA under ADF-IV, sixty-four (64) were in connection with projects. Ninety-two (92) out of the hundred and seven (107) operations carried out under ADF-V were linked to projects.

153. As regards results, 27 studies actually resulted into projects under ADF-III, 29 under ADF-V excluding 25 studies which were still underway. With regard to ADF-V, out of seventy-two (72) operations approved to date by the Board, two (2) had been completed and sixty-two (62) were still being implemented. Management would be in position to determine the definitive result towards 1992. He assured Deputies that an analytical table on the above statistics could be prepared and submitted if they so desired.

154. The **REPRESENTATIVE of SWITZERLAND** wanted to know the amounts involved in the TAF operations referred to above.

155. Mr. SARR said that the statistics would be worked out and made available to Deputies in due course.

156. The **REPRESENTATIVE of the UNITED KINGDOM** said that although he would like to see the Technical Assistance Fund project-related to a large extent, he had some reservation about the tendency to fix a specific percentage thereon. He was of the view that Management should be given room for flexibility.

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157. The **CO-ORDINATOR** recalled that the proposal was put forward by the French delegate as a way of stressing the priority that should be given to the prime activities of the TAF. In fact, it was clear from the Abidjan meeting that Deputies wanted to move into that direction. The percentage should however be considered as merely indicative. He asked Deputies to provisionally accept that 10% of ADF-VI resources would be allocated to the TAF out of which 80% would be earmarked for project preparation and implementation.

158. The **REPRESENTATIVE of DENMARK** said that, instead of fixing a firm percentage, he would suggest that the 10% be considered a ceiling and not a target.

159. The **CO-ORDINATOR** observed that the amendment was acceptable to Deputies. He also concluded that there was consensus on Management's proposal to maintain the current country categorization and the respective cut-off points.

160. He invited Management to make clarifications on the weighting to be given to performance, the definition of performance and the role of the indicative figures pegged to the various criteria as illustrated in the annex. Explanations were also required on the proposed 10% allocation to the performance criteria.

161. Mr. **KARIISA** (ADB) explained that Management did not intend to earmark only 10% of Fund resources for country performance. The Bank had been preparing country programme papers over the previous three years covered by ADF-V. The primary objective of those documents was the definition of the Bank Group's operational strategies in member countries. As many of the Deputies could recall, the format that was agreed upon in 1987 made provision for the country's economic background, economic policies, the Bank Group's experience in the country and the size of the lending programme for the three-year period.

162. The figures given in the annex referred to were indicative and on the basis of which the country programming itself was carried out. The Fund would remain a principally project lending institution; only 25% of its resources would be put aside for policy-based lending. There was therefore need to have realistic planning figures. The figures in the annex would serve as guide to Management in determining the relative sizes of the lending programme. Obviously, where the country programme paper process failed the programme would be much smaller than the indicated figures. The feeling that those indicative allocations were entitlements was therefore unfounded.

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163. The 10% was supposed to motivate member countries to strive for good performance in the areas of poverty alleviation, environmental protection and women in development. It was not included in the indicative allocations.

164. As regards the computations and the various weightings used, it was necessary to recall the past. The various criteria were really worked out to assist island and landlocked countries. It would be recalled that particular emphasis was laid then on the problems of those countries in view of their location. It was therefore felt necessary that they be given special consideration in the allocation of Fund resources.

165. As far as the criteria on presence was concerned, it was meant to counter-balance the mechanistic results that might emerge out of the application of the criteria on per capita income and population. That became more evident when one looked at countries in Category A but in the higher range of GDP and with very small populations. They got very small allocations on the population criterion and equally small allocation on poverty. If there was no mechanism to scale down that imbalance, the countries would be condemned to insignificant allocations. The weightings could be reduced if a substantial replenishment was attained so as to avoid distortions.

166. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** appreciated the explanations given by the Bank staff. He recalled that before the coffee-break, his colleague from Norway had warned against moving from one mechanistic criterion to another and assured him that that was not the intention of the Deputies. The general intention was to ensure that resources provided were used more effectively than in the past. The performance criterion was aimed at assisting the Fund and beneficiary governments to set up poverty alleviation, environmental protection and involve women in the development process. Those legitimate intentions were to be reconciled with a large and feasible core programme. Doubtlessly, it must be established that every eligible country should have access to the Fund's resources.

167. He agreed with the delegate who had said previously that incentives should go hand in hand with punitive measures. A balance should be struck somewhere and it was in that regard that the 10% incentive as against the 65% of resources to be allocated was not very convincing. The wishes of the donors should be reconciled with those of recipients.

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168. The **REPRESENTATIVE of the UNITED KINGDOM**, referring to the Fund presence and isolation criteria observed that the poverty criterion already biased allocations to smaller countries because it took no account of size. The addition of presence and isolation criteria which were flat rate figures that did not vary according to the size of the country, would lead to accumulated distortions which in extreme cases became very glaring. The case of Sao Tome and Principe could serve as an example. He felt that that was an undesirable distortion in the allocation of the Fund's resources.

169. He however appreciated that operationally, there could probably be a minimum size of programme which the African Development Fund would not wish to go below for its operations to be meaningful. He thought that it would be better to rationalize those additional criteria simply by setting a lower threshold on the size of any country programme. Then the other criteria on population and GNP per head would be converted into an initial figure. If it was below the minimum threshold, it could be up-graded to that level. The cumulative effect of the three criteria that benefitted only small countries could then be scaled down.

170. As regards the approach to the incorporation of the criterion on performance, he said that the comments made by the experts were very helpful. It however struck him that the said incorporation was being carried out in a slightly different way from what was indicated in the document. Perhaps if indicative programmes were determined country by country on the basis of the population and GNP per capita criteria, the basic figures could then be varied upwards or downwards by a certain percentage according to performance factors. Such a procedure could respond to the concerns expressed by his colleagues.

171. The **REPRESENTATIVE of FRANCE** was of the view that the formula proposed by the British delegate was both adequate and easy to implement. What Deputies should do now was to determine the percentage to be applied to each side of the performance indicator.

172. The table on the allocation of ADF resources on the basis of the various criteria, the weighting given to isolation and Fund presence criteria was too high and that evidently led to distortions. A possible solution to that problem could consist in reducing those weighting or fixing a ceiling on them.

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173. The **REPRESENTATIVE of NORWAY** said that it was difficult to discuss the issue in isolation and that it was useful to look at the sectoral priorities. He drew attention to the fact that Deputies were discussing a management tool which required figures that were not yet available. In fact, the Deputies should take a global view of sectoral and lending priorities as well as policy-based lending. In any case, the points raised that afternoon were very pertinent as they were pointers to the orientations of the Fund's operations .

174. As far as he was concerned, performance and priorities were integral parts of the lending programme. It therefore did not make sense to him to have a separate percentage for performance. The allocations to individual countries should therefore vary in accordance with the fulfilment of the lending programme priorities.

175. The **REPRESENTATIVE of CANADA** found Management's presentation of the subject under consideration very helpful. Referring to the proposals made by her UK colleague, she agreed with the suggestions on the need to reduce the criteria and the determination of a threshold below which the allocations to countries should not fall. She however had difficulties with the other aspects of his proposal in terms of fixing country allocations on the basis of two criteria and then having an upward or downward limit because much room would not be made for flexibility. The Fund's presence in member countries could be based on performance as suggested by the delegate from Norway, especially if performance was to be an integral part of the operational programme. What remained to be dealt with was to give indications as to how the policy based lending could be fit into the whole context. She felt that policy based lending should be integrated into the overall country programming exercise of the Fund.

176. The **REPRESENTATIVE of the UNITED STATES of AMERICA** felt that Economic Policy and Country Programming Paper (EPCPs) should serve as vehicles through which the national priorities could be developed because the sectoral priorities of member countries were not the same.

177. The **REPRESENTATIVE of DENMARK** said that Management was correct in stating that for administrative purposes, a minimum allocation was required to carry out meaningful programming. However, looking at the annexes, one could see that two criteria namely, Fund presence and isolation, over-compensated that need because some countries ended up having a total allocation of FUA 25 million whereas Sao Tomé and Príncipe for example, would have FUA 35 million. It could perhaps be appropriate place to either fix a ceiling on those criteria, as already suggested, or to combine them to form a single criterion.

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178. He did not regard the 10% as the weighting given to performance but rather as additional resources which could be allocated to countries performing well in the priority areas such as poverty alleviation, women in development and environmental protection.

179. The CO-ORDINATOR recalled having suggested before lunch that the issue be considered informally at a working session scheduled for that evening. He appealed to delegates to attend that meeting so that a solution could be found to the problem of resource allocation.

It was so decided.

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ADF EXPERIENCE IN POLICY-BASED LENDING OPERATIONS, 1986-1990
(ADF-VI/CM.2/90/04) (agenda item 3.2)

180. Mr. KASONGA, (ADB) introducing the paper on ADF experience in policy-based lending operations, 1986-1990 (ADF-VI/CM.2/90/04), said that it consisted of three main elements. The first section made a review of the policy-based operation from 1986 to 1990 from both the quantitative and qualitative point of view. On the quantitative side the document gave indications on the number of loans granted and the amounts involved as well as the number of recipient countries. It also looked at the disbursement rate. On the qualitative side, the document looked at four elements, namely, programme content, the expertise of country economists involved in the preparation of the country programme papers, dialogue with beneficiary countries and aid co-ordination as well as the determination of loan conditionalities.

181. The second section dealt with the economic adjustment operations and disbursements. Special attention had been paid to operational mechanism, the procedures involved in those mechanisms and disbursement of the respective tranches.

182. The third part of the document was devoted to the examination of prospects for economic adjustment operations for the period 1991 to 1993.

183. He pointed out that Table 1 of the Annex indicated significant progress in the size and number of loans, as well as the number of countries receiving them. There had also been a significant improvement in the quality of the structural adjustment loans; the emphasis, which had at first been placed on stabilization, had shifted towards policies that could transform structures and thus accelerate development. Thanks to the experience acquired by the Fund, greater account

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was being taken of the social and cultural dimensions of the program. In 1991-1993 the focus of the activities would move beyond short-term objectives to growth and long-term objectives. The third section of The Paper also gave attention to the financing needs of the special assistance programmes now financed by the World Bank.

184. Mr. **MERGHOUB** (ADB) said that the policy-based lending operations were among the activities ADF shared most effectively with other donors particularly those who were participants in the SPA framework where policy reform programmes are discussed and to the extent conclusions reached in this context apply to ADF programmes as well. In the future, operations would continue to be carried out within the framework of SPA and in co-operation with other agencies and donors participating in that programme. It was expected that in the future operations would extend to about 22 to 24 countries, but that those operations would not exceed in the aggregate 20-25 per cent of total ADF-VI resources as it would be decided by the Deputies..

185. He however drew attention to the fact that considerable changes had taken place on the world scene since the document was prepared as a result of the Gulf crisis. The World Bank's recent estimate of resulting additional financial needs for sub-sahara Africa excluding Sudan was about US\$ 1-1.3 billion per annum which would give a total amount of up to US\$ 4 billion in addition to the initial SPA II figures of about US\$ 20 billion. Those figures were essentially in connection with the direct effect of the crisis on the import side of of the trade balance. They did not take into account the effects on the export side to be effected by likely world economic recession or the effects on debt repayments following increases in interest rates.

186. The **REPRESENTATIVE** of **AUSTRIA** asked what ADF's policy was in cases where such operations failed to achieve their goals. He was making particular reference to Somalia which had recently been granted an ADF loan even though the programme that was financed in that country by the World Bank had been stopped.

187. Mr. **MERGHOUB** said that such operations were entered into on the understanding that they were being monitored by the IMF and that they were on track. The Fund's decisions were taken by agreement with its partners, as had been the case of the agricultural loan to Somalia.

188. The **REPRESENTATIVE** of **JAPAN** said he would continue to emphasize that the best way of achieving the objective of poverty alleviation in the long-run was through the

provision of basic infrastructure to enhance growth. In that context, the core of the Fund's lending should be project-based. Policy-based lending should therefore be strictly controlled and kept to the minimum. While agreeing that if well designed they could be very effective in over-coming short-term economic crisis, the proposal that the proportion of such lending should be increased gave cause for concern. Care should be taken to ensure that such lending did not come to be regarded as an entitlement by recipient countries in order not to increase the risks involved for the Fund.

189. The **CO-ORDINATOR** pointed out that distinction should be made between the Bank and the Fund in discussing the issue under consideration. He should however clarify the number of operations the Fund had joint financed with the World Bank as well as the level of co-ordination between the two institutions with regard to policy-base lending.

190. In connection with the Japanese representative's second comment, he noted that there seemed no disagreement with regard to the staff's proposal that there should be greater flexibility with regard to the PBLs rather than adherence to fixed quota operations.

191. Mr. **KASONGA** explained that almost all the economic adjustment operations had been carried out in co-operation with not only the IBRD but with other agencies and donors, and that the Fund had gained greater expertise as its experience increased.

192. The **REPRESENTATIVE of the UNITED KINGDOM** agreed with the suggestion made by Canada that all aspects of country dialogue should be integrated in the country strategy approach. But he also shared the view of the Japanese delegate that it could be better to handle policy-based lending as a separate allocation outside the country indicative programmes. He believed that it made an operational sense to deal with policy-based lending in that way given its particular bearing on the Special Programme for Africa, the need to respond to SPA decisions and co-ordinate with IFIs as well as the need to monitor the overall limit on that form of lending.

193. He welcomed Management's confirmation of the existing co-ordination existing between the Fund and the World Bank on PBL operations. He would however want to see in addition to that a better synchronization between IDA and ADF operations. Where an ADF Board approval came several months after an IDA loan, there would be the danger that conditions in the country might have changed significantly thereby making it difficult to co-ordinate decisions on conditionalities and tranche release in most circumstances.

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194. With regard to conditionality, he would urge caution in respect to the introduction of separate conditions by the ADF.

195. With regard to loan terms and conditions, he had some reservations about tying the counterpart funds under ADF adjustment operations to ADF projects. UK's general position was that counterpart funds generated by policy-based lending should essentially be untied.

196. It would be useful also to have clarifications on the definition of PBLs used by Management.

197. He wished to repeat that he did not support Management's proposal with regard to the involvement of the ADF in debt reduction.

198. The CO-ORDINATOR said there was general agreement that there should be better synchronisation between structural adjustment operations of IDA and those of the Fund.

199. The REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY said that the question of acquiring experience and expertise was important. However, he would re-emphasize the need for caution with respect to PBLs and in deviating from the conditions set by the World Bank.

200. Commenting on the objectives of the twenty-six policy-based so far granted, he noted that he would attach much greater importance to the fourth on the financing of social costs of adjustment than to the first. He pointed out that no IDA-9 resources would be used for debt reduction. He shared the Japanese representative's concern that if the PBLs were not properly planned the recipient countries might after a time not be in a position to repay them.

201. The CO-ORDINATOR said it should be a matter for satisfaction that the PBLs were popular, provided that they did not come to be regarded as an entitlement.

202. He noted that one of the points emphasized in the paper was that of build-up.

203. The REPRESENTATIVE of FRANCE said he considered the 25 per cent threshold figure an improvement over that of 20 per cent now that the initial concerns raised by the programme had been allayed. One of the Fund's aims should be to substitute ADB loans for other lending; that goal would justify raising the percentage of such loans.

204. He agreed that there should be one set of conditions among donors. He did not share the concerns expressed by the representative of the Federal Republic of Germany; the PBLs were not subsidies but development loans.

205. In his view, it would not be useful to use ADF funds to for debt reduction. He would prefer to see them used to improve project management and the economic situation of the recipient countries.

206. He wished to reiterate his continued interest in project loans, and his concern at the slowness of the disbursement rate for such loans.

The meeting was suspended at 4.40 p.m. and resumed at 5.p.m.

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207. The **REPRESENTATIVE of DENMARK** thanked Management for the very detailed document on policy-based lending operations as well as for the detailed manner it had been presented .

208. He stressed from the outset that he was not questioning the need for borrowing member countries to have access to that type of lending and that he had no objection to the volume of resources earmarked by Management for the operation. It was, however, to be noted that it involved the allocation of funds within very restricted resource limits; consequently, there could not be any transfers between the amounts allocated to policy-based lending and those earmarked for project lending. That, in itself put a limit on what could be done.

209. He observed that several delegates wanted to know whether those loans would be given within or without the normal allocations. He recalled having previously stressed the merits of including those loans in normal allocations. That approach could facilitate greater flexibility since it was necessary to give equal treatment to all eligible countries.

210. With regard to the document on the overall level of policy-based lending for the ADF-VI period, he drew attention to the reference made to the visible improvement in the competence of Fund experts in that area of lending. Even if he should congratulate Management for building that additional expertise, he felt that it was not a sufficient reason for its utilization up to 100%.

211. With regard to actual percentages, he felt that it was difficult at that stage to decide on 20 or 25% in the sense that there was not a clear definition of policy-based lending. He was not denying the fact that a definition existed under ADF-V but it was necessary to know whether the definition was to be maintained or modified within the framework of ADF-VI.

212. As far as the Fund's role in SPA-2 was concerned, the Danish delegation did not feel that ADF should necessarily support policy-based operations in all eligible countries under SPA-2.

213. With regard to the substance of those loans, he endorsed the observations made by the United Kingdom that a more effective synchronization would be useful between World Bank and ADF operations. He also shared the view that Management should be extremely careful with separate conditionalities particularly in the macro-economic area.

214. He said that the role of the ADF should not be limited to financing accompanying measures for combating the adverse social effects of adjustment programmes. Rather, it would be justified to entrust the Fund with a more extensive role.

215. With regard to the question of debt, he shared the view that it would be inappropriate to use the Fund's resources for operations similar to the World Bank's US\$100 million facility, since that the said facility had enough resources to cope with the situation; that was why it would not be prudent to establish a second facility under the ADF.

216. As far as the refinancing of ADB loans was concerned, he stressed that it was not ADF's role either, given that such a facility existed within the framework of IDA.

217. The **REPRESENTATIVE of SWEDEN** agreed that fast disbursing loans were required to support the development efforts of African countries particularly considering the impact of the Gulf crisis on most of those countries.

218. The level of that type of lending should be maintained at 20% for the detailed reasons that had been provided by her Japanese colleague. ADF should focus its interventions on sectoral reforms given the wide experience of its experts in that area. Those sectoral adjustment loans should be well prepared and co-ordinated with bilateral donors, the World Bank and the IMF operating at the macro-economic level. She subscribed to the conclusions in the working document which pointed out that to grant such loans, account should be taken of the ability of the

beneficiary countries to prepare programmes that would give priority to poverty alleviation activities as well as those relating to the social dimensions of structural adjustment.

219. She also stressed the importance of those loans within the framework of country strategies and the policy dialogue with borrowing countries.

220. With regard to debt reduction, the Swedish delegation was also of the view that it would not be appropriate for the ADF to be involved in that kind of operations.

221. The **REPRESENTATIVE of the NETHERLANDS** agreed that ADF should continue to finance policy-based loans; but it was worth mentioning that the World Bank was gradually moving away from that kind of operations to project loans. It therefore would be advisable to carry out a systematic evaluation of those loans. He admitted that it was not an easy task and suggested to Management to consult the conclusions drawn from the two studies undertaken by the World Bank in that regard.

222. He endorsed the second conclusion contained in the document that the allocation of ADF resources earmarked for the financing of structural adjustment operations should first of all fulfil the performance criterion. The framework provided under the SPA was useful in that regard.

223. As regards the training of economists, he observed that no reference had been made in the conclusions to collaboration with the World Bank. He therefore emphasized the advisability of a close collaboration with the World Bank not only for the purpose of drawing up effective policy but also to strengthen that training.

224. The Dutch delegation was willing to consider the 20% ceiling but it would at the same time reiterate the need for a close collaboration with the World Bank and stress the advisability of having an automatic control mechanism so that the ceiling fixed could not be exceeded. The Bank's short experience in that type of lending made it necessary to have such a mechanism.

225. The explanations given by Management with regard to the definition of policy-based lending was not satisfactory. The Government of the Netherlands would prefer that all non-project loans as well as sectoral loans were included in the definition of policy-based lending.

226. The preparation of a more consistent pipelines of those loans was also necessary and it would be necessary to carry out a meticulous evaluation during the mid-term review as such an evaluation was so far lacking.

227. The **REPRESENTATIVE of CANADA** observed that all the delegates had agreed that policy reforms were necessary in countries eligible to ADF resources. They also recognized that the Institution had an important role to play within the scope of SPA together with the World Bank, the IMF and bilateral donors. In her opinion, the key question was how to effectively use that lending instrument.

228. Country strategy was the core of the relationship between an institution and the borrowing countries; that was why those reforms should be supported by all the Bank's operations and not solely the policy-based loans. A good loan could not be identified within the context of a bad policy framework. Each loan, in one way or another, was to some extent a policy-based loan in the widest sense of its definition. The detailed views of Canada on that subject was spelt out in paragraph 25 of the IDA-9 report.

229. She believed that there had been collaboration with the World Bank, the IMF and bilateral donors on macro-economic issues. In her opinion, bilateral donors were also becoming increasing aware that they had a role to play in structural adjustment efforts. She therefore reiterated the need for ADF to work closely with IDA and similar agencies. In that regard, she added that all policy-based operations should be based on country programming.

230. Furthermore, it would be well advised to know why the World Bank was moving away from policy-based loans to sectoral loans. Still on the definition of policy-based lending, she observed that it was advisable to streamline it under ADF to focus on the sectoral aspect. The determination of the exact percentage would depend on the definition agreed upon.

231. With regard to debt reduction, she subscribed to the view that it would be inappropriate to use ADF resources for that purpose.

232. The **REPRESENTATIVE of NORWAY** felt that no delegate had denied the need for policy-based lending, but there should be a limit to ADF involvement. In view of that, the level of resources to be allocated to that type of lending should be limited under ADF-VI as was the case for ADF-V. He subscribed to the flexible approach proposed by Canada, because the changes that had taken place in African societies involved many more aspects than classical structural adjustments at the macro-economic level. That was why traditional projects also had a role to play in the process.

233. With regard to the SPA, he had no problem with the definition or co-financings within that framework. It should, however, be pointed out that all countries undergoing structural adjustments were not eligible to the SPA. They should have serious debt problems to be admitted. That would lead him to the question of synchronization with the World Bank. While he appreciated the synchronization of World Bank operations with those of the ADF, he felt that some amount of flexibility was required. Indeed, on the bilateral side, Norway had co-financed adjustment programmes within the framework of the SPA without necessarily synchronizing its operations with those of IDA and yet there had been no problems.

234. The representative of Norway was willing to accept the current definition of policy-based lending but the proposal should be limited to 20% for reasons given during the first meeting in Abidjan.

235. With regard to debt, he fully supported the views expressed thereon and added that the utilization of ADF resources for debt reduction would pose a major problem to his authorities. The Norwegian parliament had made it clear that aid resources should not on any account be used for that purpose. His Government would find it difficult to contribute towards the sixth replenishment if that view was not observed.

236. The **REPRESENTATIVE of FINLAND** felt that policy-based lending was a form of assistance to be approved under ADF-VI and that they should be co-ordinated with the SPA. Consequently, a close collaboration with the World Bank was essential.

237. She would like to know how sectoral and rehabilitation lendings would be introduced in policy-based programmes.

238. With regard to the 25% ceiling, she endorsed the proposal made by the other Scandinavian delegates that the 20% should be maintained. It would not really be prudent to increase that proportion.

239. It was evident that debt reduction operations could not be financed from ADF resources. There were mechanisms such as the Paris Club which could deal with problems of that nature.

240. As far as fast disbursing loans were concerned, she would like to have some clarifications on Table 2 on the annual disbursements of policy-based loans for the period 1986-1990, because there were a lot of variations in the figures when in fact several loans had not been expended.

241. Mr. **MERGHOU** (ADB), responding to observations made, gave clarifications on the orientation of operations towards sectoral adjustment to which Management was gradually retraining. The countries that would benefit from the SPA-II were the same as SPA-I countries with the exception of a few. Emphasis had been put on macro-economic adjustments under SPA-I; SPA-II on the other hand, would focus on sectoral adjustments given progress achieved under macro-economic management and the need to direct resources toward more long term sectoral reforms.

242. With regard to the pipeline of policy-based loans for the three subsequent years, he stressed that the identification of countries in the pipeline did not necessarily mean that projects of that kind would be automatically implemented in those countries. Management would be guided each time by its EPCP reviews and country and specific country strategies.

243. As far as the synchronization of operations was concerned, he pointed out that the ADF was for most of the time invited to participate in operations initiated by the World Bank or being considered by it. The Fund Management would then in collaboration with the World Bank, prepare the appropriate conditionalities in support of the programmes. These conditionalities should be realistic and in tune with sectoral trends and prevailing macro-economic situation. When ADF intervention follows, the World Bank appraised operation, the Fund would normally need to up-date its set of conditionalities in co-ordination with the World Bank, this on account of the new macro-economic environment. Fund intervention subsequent to World Bank's has proved beneficial because it adds support to programmes endorsed by the entire donors community. A good synchronization of operations exist in this respect and World Bank and the IMF are most of the time (if not all the time) pleased with the support provided by the ADF.

244. With regard to the training of experts, he pointed out that there were exchange of experts between the ADB and the World Bank. This year, for example, four (4) ADB experts would be sent to the IMF training centre for a well determined programme. There were also staff exchanges for certain operations such as SDA, preparation of macro-economic memoranda etc..

245. As far as the definition of policy-based lending was concerned, the ADF used the same norms as other donors since it was working within the framework of the SPA. The definition given in the document was the one that had been adopted by all parties to that programme. If ADF had to move away from that definition it should do so only after discussing with them. It should be pointed out that the definition used by the Fund did not include sectoral and rehabilitation loans since they did not support balance of payment deficits.

246. Observations on disbursements were contained in Annex 2 of the document. The annex clearly showed ADF's prudent handling of fast-disbursing loans; Management paid particular attention to conditionalities even if it amounted to disbursing a loan over a period of 3 or 4 years instead of 18 months.

247. Mr. KASONGA (ADB) added that besides sending ADB experts for in-service courses on macro-economic and financial analysis, seminars were organized in close collaboration with other donors and more particularly the World Bank's Economic Development Institute. Seminars were also organized in conjunction with the World Bank on accompanying measures with particular reference to the social dimensions of structural adjustment.

248. He replied in the affirmative to the question as to whether Management introduced the element of poverty alleviation in structural adjustment operations. That element was taken into account within the scope of the second generation of structural adjustment programmes prepared by the ADF since 1988. The social dimension to adjustment had three components :

- The first consisted of compensating social costs;
- the second consisted of protecting vulnerable groups;
- the third consisted of the inclusion of profitable social projects in public investments even though that profitability could be in the long-run.

249. The REPRESENTATIVE of the UNITED STATES of AMERICA requested that his formula in connection with the discussion on resource allocation to policy-based lending, the TAF as well as the SPA be distributed as his intervention would be based on it.

It was so decided.

250. The REPRESENTATIVE of the UNITED STATES of AMERICA said that the chart he had circulated was in connection with the discussions on resource allocation, policy-based lending as well as issues concerning the core programme, SPA and TAF.

251. He pointed out that although negotiations were not yet concluded on SPA-2, it was clear that there was going to be less emphasis on the debt service criteria.

252. The **CO-ORDINATOR** said that his impression was that although a few countries would be added to those already eligible for the SPA, the Programme's main criteria would remain basically the same.

253. The **REPRESENTATIVE of the UNITED STATES of AMERICA**, referring to his chart, said that his main objective in preparing the document was to make a sythesis of comments that had been made that afternoon particularly with regard to the efficient use of the Fund's scarce resources and the development of a simple mechanism for increased emphasis on performance. One option would be to define a threshold of performance and then the bulk of the resources could go to countries that transcend that threshold. The balance of resources could go to non-performers. Indicative programmes could be drawn up for member countries mainly based on the slightly revised GDP per capita and population criteria. The content of those programmes should be consistent with the EPCPs which should be consistent with the pipeline of projects, the investment sector, slow disbursing loans and orientations towards the social sector including poverty alleviation, environment and women in development.

254. The issue of the policy-based lending should be treated separately from the indicative programme, the core programme and the TAF. He hoped that the chart, as presented, would enable Deputies to reach a consensus on the issue.

255. The **CO-ORDINATOR**, referring to the chart distributed to Deputies by the United States delegate, observed that the general intention was to fix minimals even though no figures had been indicated. Furthermore, there was reason to suppose that the countries in the two lower boxes would also be included in the economic perspectives and country programming process (EPCP). That was an important point because, as pointed out by the Canadian delegate, the discussion on country programming should cover all the important factors. Moreover, the reference in the chart to GNP per capita and the size of countries as the main criteria to be taken into consideration corresponded to the view expressed by the United Kingdom delegate.

256. The **REPRESENTATIVE of the UNITED STATES of AMERICA** explained that according to the proposed chart, resources allocated to the core programme would be earmarked on the basis of projects and not on the basis of adjustment programmes undertaken by countries. As regards the policy dialogue with member countries, the EPCP process could be broadened, because it was of extreme relevance to the purpose of indicative programming, not forgetting the performance criterion as well.

257. The **REPRESENTATIVE of the UNITED KINGDOM** stressed that the two principal factors to be taken into consideration for determining programmable resources per country should be the GNP per capita and population because the introduction of the criterion on the Fund's presence might distort the sharing of resources among big and small countries.

258. The **CO-ORDINATOR**, summing up the discussion, observed that Deputies had agreed in the first place, that policy-based lending should play the same important role under the sixth replenishment of ADF resources as under the previous ADF-V period.

259. Secondly, policy-based loans should be granted within the strict framework of the Special Programme of Assistance to Africa (SPA) in consultation with the World Bank, the IMF and other donors where necessary.

260. Thirdly, Management had taken note of the issues raised with regard to synchronization and conditionality; the important thing was that Management should observe the general guidelines provided on the matter and harmonize its operations with those of other relevant organizations.

261. Fourthly, all the Deputies expressed satisfaction at the efforts made by the ADF staff in the joint venture with the World Bank. Those training efforts would enable ADF staff to meaningfully participate in the dialogue with the World Bank and even exert their own influence.

262. Fifthly, most of the speakers were of the opinion that policy-based loans should lay special emphasis on sectoral activities and that they should be prepared in collaboration with the World Bank. Most Deputies felt that ADF should pay particular attention to the agriculture and social sectors. The final report should, however, be flexible on that point given that the Gulf crisis would obviously have an impact on the macro-economic situation and which in turn would surely influence the attitude of donors to the second programme for Africa.

263. As regards the percentage of resources to be allocated to policy-based lending, some delegations had said that 20% should be the maximum, but others were in favour of 25%. The decision thereon would depend on the one to be adopted on the resource allocation procedure as well as the replenishment volume. Nevertheless, it was agreed that a ceiling should be fixed which should not be exceeded. Furthermore, the Deputies agreed that policy-based lending should not be seen as a right or a legitimate expectation but rather as a means of motivating countries to undertake difficult and even painful reforms.

264. The issue of access to policy-based lending should be reviewed regularly during the course of the three years by the Bank and its borrowers within the scope of their policy dialogue. It would not be necessary for Management to prepare a new document on the issue. The draft report would reflect the consensus reached as well as the divergencies, considering the various views expressed.

265. Finally, it was necessary to stress not only that some delegates had said that Management should not be encouraged to use ADF resources for debt restructuring but that some delegations were vigorously opposed to it. The issue should therefore be considered as closed.

266. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY**, as pointed out by the Dutch delegate, felt that it would be necessary to highlight in the report that because of various reasons, the World Bank was now putting more emphasis on sectoral loans and not policy-based loans. That seemed to be the tendency in the 90s.

267. Furthermore, as said by the Norwegian delegation, the 20% ceiling on policy-based lending should be maintained if the SPA definitions remained the same. There should be some flexibility in case of anything to the contrary.

268. The **CO-ORDINATOR** was not sure whether such flexibility was possible at that stage given that some Deputies were opposed to a figure higher than 20%. Nevertheless, if the World Bank modified the definitions used under the second special programme for Africa, the African Development Bank should follow suite.

269. As regards the resource allocation, the Co-ordinator noted that the United States delegate was willing to look for a common formula that took into account both country needs and country performance.

270. In that regard, the Co-ordinator suggested that a working group meet after that session to assist him prepare a text to serve as the basis for future meetings as well as the eventual consensus on the issue. He suggested that the texts on the previous IDA replenishment be used as background documents on the understanding that delegates could submit any suggestions they deemed appropriate.

The meeting rose at 6.30 p.m.

271. The **CO-ORDINATOR** said that the main outstanding issue for discussion was whether it was still appropriate for some countries in Category A to have access to ADB resources.

272. The **REPRESENTATIVE of DENMARK** said that he would be reluctant to support a blanket exclusion of Category A countries from access to ADB loans for a number of reasons, including the fact that it would be necessary to compensate those countries by agreeing to a larger replenishment for them.

273. The **CO-ORDINATOR** said that the issue was whether it was desirable, to the extent feasible, to substitute Fund lending to those countries for Bank lending. He noted that for the 1988-1989 period the total of such Bank lending had amounted to about 625 million units of account.

274. The **REPRESENTATIVE of the UNITED KINGDOM** said that he saw no rationale for the idea that past lending by the Bank should be taken over by the Fund. Non-concessional aid should be confined to creditworthy countries. However, he did not consider a blanket exclusion of Fund lending to such countries desirable. He added that most of the Bank resources involved in such lending in the past had gone to Zaire, for reasons that were not clear to him in view of that country's credit status.

275. The **CO-ORDINATOR** said that such loans had been made to several countries; in any case, however, the question was not one of individual countries but of a general policy.

276. The **REPRESENTATIVE of the UNITED STATES of America** said it was not advisable from both the Bank and the Fund's points of view to give Category A countries access to Bank lending; he was very much in favour of limiting their access solely to Fund resources.

277. The **REPRESENTATIVE of CANADA** said it might be useful to follow the example of IDA, where there was no fixed rule but a convention existed that certain countries would have access to the soft rather than the hard window.

278. He did not think blending should be regarded simply as a way for countries to bring their interest rates down, but rather as a way to approach certain projects which contained various components, some of which were more profit generating than others.

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279. The **REPRESENTATIVE of SWITZERLAND** felt that access to Bank lending by Category A countries should not be prohibited, particularly in view of the Fund's limited resources.

280. The **REPRESENTATIVE OF NORWAY** said what was important was to have guidelines covering the use of ADB Funds for Category A countries.

281. The **REPRESENTATIVE of FRANCE** felt that the general rule to be adopted should be to avoid giving access to Bank funds to Category A countries

282. Vice-President **LOUNES** said that Management had always considered that access to Bank funds by Category A countries should be the exception rather than the rule, and had acted accordingly.

283. He noted that a paper on of blending had been distributed to the Board of Directors at its last meeting; the Board had, however, decided to defer consideration of it.

284. The Bank's loan conditions to Category A countries were a matter for decision by the Bank. He would point out, however, that at the last meeting, a directive had been issued calling for the Bank to diversify its activities; a certain inconsistency would be involved if the Bank were now asked to restrict its activities.

285. In considering restrictions on the Bank's activities, it should be also borne in mind that a number of new policies to be instituted under ADF VI would call for increased Fund resources.

286. The **REPRESENTATIVE of ITALY** suggested that the staff be asked to prepare a paper on how blending might affect loans to certain large countries before any decision was taken.

287. The **REPRESENTATIVE of NORWAY** said that the document to which Vice-President Lounes had referred had made no mention of the use of Bank resources, which was what blending implied. It was for that reason that consideration of the document had been deferred.

288. The **REPRESENTATIVE of CANADA** recalled the earlier discussion of policy-based lending and its relation to performance criteria. It was hard to make a good loan in a bad policy situation; she would not wish the Bank to make loans where the credit situation was unsatisfactory.

289. The **REPRESENTATIVE of the UNITED KINGDOM** said that if the Fund's State Participants wished to pursue the subject of blending they should ask staff to prepare a report on the subject for submission to the Bank's governing bodies. Policy issues which were for the Bank to decide would have to be pursued in the Bank.

290. Although the Fund would like to meet the needs of countries for concessional loans, he saw no link between that wish and the amounts of replenishment.

291. The **REPRESENTATIVE of the UNITED STATES of America** supported the preparation of a report but said he wished to make it clear that his authorities were unequivocally opposed to Bank lending to Category A countries.

TOWARDS AN ADF STRATEGY OF POVERTY ALLEVIATION (ADF-VI/CM.2/90/05)
(agenda item 3.3)

292. The **CO-ORDINATOR** asked Mr. London to introduce the paper on the agenda item (ADF-VI/CM.2/90/05), and noted that other relevant intersectoral and sectoral issues such as environmental protection and the role of women might well be discussed at the same time.

293. Mr. **LONDON**, introducing the paper, said that poverty alleviation was important for African countries. The approach taken in the paper consisted of three basic elements: stress was laid, firstly, on the fundamental importance of macro-economic policies; secondly, the need was also recognised to give attention to specific points of action at the sectoral level; lastly, in view of the existence of some very specific needs, account was taken of the need to look at particular problems, within the context of over-all policy.

294. It was not Management's intention to establish a specific section of the Bank devoted to poverty alleviation; its approach would be cross-sectoral and focused on specific issues. Management was aware that the effort would take time and money, but felt that the question was important enough for immediate action; that was why it was submitting the paper at the present time.

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295. The **REPRESENTATIVE of CANADA** recalled that at the opening of the World Bank meetings the previous Tuesday morning, the President of the World Bank had said that reducing poverty should be the measure of global progress. It was in that spirit that she very much welcomed the introduction that had just been made by the Secretariat and also welcomed the document that had been submitted to State Participants. She recognized that the document

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was put together hastily as the result of the Abidjan meeting and as such, it was still a framework rather than a detailed paper. That being said, it should be pointed out that it was a paper which went very much in the right direction.

296. The focus of the development community had shifted radically. Even in parts of the world which had seen phenomenal economic growth such as Asia, millions continued to live in poverty. And in Africa, it was even more crucial, where the prospects for economic growth remained pessimistic that Deputies were attacking that very elusive problem of poverty reduction. There was a heartening agreement around the development community on what the elements of that approach should be and growing agreement among the major institutions.

297. The three elements which the Secretariat had outlined, of the overall approach, i.e., the policy environment, measures to increase productivity of the poor and investments in the social sector, i.e., measures to ensure access to primary education and basic health care, were three elements Canada thoroughly endorsed. She would also add a fourth one and that was, although a difficulty for African governments given the low rate of revenues, the provision of safety nets for the poor during what was going to be a fairly long adjustment period.

298. The world had learnt a very hard lesson in the 1980's. In 1980, the World Bank produced the World Development Report on Human Resources in which it proved mathematically that the countries which had benefitted the most from economic growth in the development decade of the 1970's were those which started out the decade with the highest quality of life indicators. That was a lesson which was put aside in 1980 in response to the economic crisis. And the World Bank was now admitting that a very serious mistake had been made at that time. Governments and institutions alike believed that the 1982 crisis was going to be short-lived and could be overcome by what was referred to as the short sharp shock of stabilization. But she was afraid that the short sharp shock was a deep shock for a lot of people who suffered including those who died from malnutrition.

299. The turn around had been very slow in coming. But slowly donors had learnt to get away from stabilization, to stabilization with growth, to adjustment with the human face, to the social dimensions of adjustment and to the ECA/World Bank debate which took place a year ago. But still much progress had not been made. There were still statements being made, even by some Governments around the table, that social investment was something one did with the funds

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generated by economic growth. She would like to reject that assumption; it was much deeper than that. First of all, development surely, at the minimum, must do no harm. Helping people was not an add-on. It was the reason for development, to create the climate of economic growth which enabled human beings to improve their quality of life and not their profit line.

300. Putting the control in people's hands took on a different meaning under those circumstances. The productivity and enfranchisement of the poor and particularly the productivity and enfranchisement of women had become the first principle. One cannot successfully put in place a programme of poverty alleviation without a very sophisticated gender analysis. The link between the advancement of women and the approach to poverty was made very clearly in the Development Committee, but she should say that the approach was put forward entirely around that table by male delegates. She would suggest that those Governments who were supportive of women in development could take that to heart.

301. The proposed strategy of the Bank, as she had said earlier, represented an integrated approach which Canada might accept quite readily. But by the Bank's admission, however, it still remained short of appropriate indicators to monitor and assess progress. She was looking forward to the Senior Management Task Force on poverty alleviation to give more explicit details on the operational mechanism. That Task Force Report should complement and not necessarily replicate the work already done by the World Development Report on poverty and the UNDP Human Development Report both of which had brought Delegates very much forward in that debate.

302. Unfortunately, those reports were very much based on the experiences of Asian and Latin American countries and the positive experiences of other African countries would have been worth understanding. She regretted very much that the World Bank did not do that analysis. It would therefore perhaps become a task for the African Development Bank to present the African positive experiences. Everything was not dismal in Africa.

303. In general, however, there were a number of lessons that had been learnt from the Asian experience which were applicable, i.e., that countries which had been successful in reducing poverty had encouraged the pattern of growth that made efficient use of labour focused on the rural sector, increased the productive capacity of the poor and invested intensively in human capital. She was referring to countries such as Thailand and Indonesia which had made massive advances. The point still remained though that those massive advances were made in

situations where countries benefitted from a population which had ready access to education and health. That was why investments in those sectors for Africa became doubly crucial, because they were not starting from the same point as many of the Asian countries.

304. Increasing the productivity of the poor, which would in turn lead to greater purchasing power, and an increase in public investments as incomes grew, was in her view, the most sustainable way to improve living standards. It was important, therefore, that the Fund participated more in policy dialogue with borrowing member countries and with all aspects of the community among those countries. In that context, she very much welcomed the approach of the Secretariat in attempting to extend that dialogue to more grassroot elements, i.e., NGOs and community groups. One approach could be to outline in the EPCPs, nationally defined social goals such as achieving a more equitable distribution of income, increasing literacy rates, reducing child mortality rate, implementing a sustained immunization programme, implementing cost-effective primary health care, improving access to safe water in rural areas etc. The list was not by any means exhaustive. Progress in achieving those goals could be monitored and reported upon in EPCPs; they were measurable indicators.

305. It was her view that if nationally defined social goals were not built in social programmes, particularly the provision of basic services benefitting the poor, funding allocations risked being residual. That was particularly true with respect to countries undertaking structural adjustment programmes where more could be done to protect and enhance the social sector. That implied going beyond the understanding of economic and social cost of adjustment to integrating social goals in economic reform programmes.

306. Canada did not have undue expectations. The Governments around that table represented major bilateral donors who were all struggling with the same problems and who were all trying to define ways in which that problem could be tackled. Her country was looking to the African Development Bank and Fund to work with donors in reaching the poorest of the poor. She certainly supported the Co-ordinator's proposal that the guidelines should continue to be pursued and she requested that the framework be deposited as early as possible in 1991.

307. The CO-ORDINATOR thanked the delegate for her comprehensive survey of the poverty alleviation strategy and her positive approach to what he considered a very impressive strategy put forward by Management.

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308. He pointed out that it was not only the Bank Group that did not still have poverty indicators. The outcome of the World Bank seminar on the subject convinced him that the World Bank itself was still grappling with the problem. There was therefore need for collaboration on the matter between regional development institutions particularly the Bank Group and the IBRD.

309. Furthermore, one of the policy decisions to be eventually taken within the scope of those negotiations was the areas to which the Fund and the Bank should give priority in terms of project preparation and financing.

310. The **REPRESENTATIVE of NORWAY** was very grateful to the Canadian delegate for her very comprehensive statement which he entirely endorsed.

311. Referring to the document submitted by Management, he said that the proposed orientations were in the right direction. It was a summary of the policy paper that Management would subsequently prepare and submit to the Boards for adoption and the strategies the Bank Group would soon put in place for future operations. He supported those strategies as they were consistent with the outcome of international discussions currently being held on poverty alleviation. In addition to the reports referred to by the Canadian delegate, he stressed the relevance of the World Bank's Long-Term Perspectives Report published the previous year. All of them underlined the current international momentum and focus on the concept of poverty alleviation. The ADF was about to joint that momentum. He appreciated Management's proposed integrated approach whereby poverty alleviation would be integrated in all Bank Group financed projects. He recalled that Deputies had recommended a similar approach with regard to the environment and women in development. He suggested that the Boards of Directors take the views of Deputies into account when approving the 1991 administrative budget of the Bank Group since additional staff would be required in those new areas of operation.

312. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** suggested that copies of the statement made by the Canadian delegate be circulated to all Deputies. He agreed that concepts such as poverty alleviation, environment and women in development had gained international momentum and that the Fund's replenishment exercise was the appropriate time to give them deserving priority in the operational activities of the Bank Group.

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313. He acknowledged that Management had prepared the document in haste as certain key elements were omitted such as the role of national governments, the participation of target populations and grassroot NGOs. Those issues should be clearly spelt out in the final report to be adopted at the close of the negotiations. The Bank Group had a very important role to play in the operationalization of the key concepts mentioned above.

314. He was aware of the fact that there were staffing implications to cope with and agreed with the delegate from Norway that experts were required in those fields whom he felt, should be recruited from outside.

The meeting was adjourned at 10.45 a.m. and resumed at 11.10 a.m.

315. The **REPRESENTATIVE of FINLAND** supported the statements made by the Canadian delegate. She welcomed the document submitted by Management and endorsed the approach and strategies proposed therein. She, however, observed that the implementation of the recommended guidelines required a lot of additional work. It was therefore necessary for Deputies to know how the Bank Group's policy dialogue with borrowing member countries as well as other comparable Institutions was proceeding. The issue of indicators and the criteria for measuring progress and performance should be given serious consideration during those negotiations. The Deputies should also be informed as to how Management intended to operationalize the concepts of environmental protection, women in development and poverty alleviation.

316. She was looking forward to the Senior Management Task Force report on poverty alleviation as that could be very useful to the current negotiations. She drew attention to paragraph 4.5 of the document and observed that the phrase "perhaps the emphasis would need to be shifted..." should rather read: "the emphasis needs to be shifted..." to be consistent with current trends.

317. The **REPRESENTATIVE of FRANCE** recalled that as pointed out by previous speakers, there had been a general agreement on what was to be done in the area of poverty alleviation. There had been discussions on the subject in the Development Committee, an excellent report had been prepared by the World Bank, the Canadian delegate had also dwelt on it at length. The approach was quite clear as to what should be done for the most under-privileged and the policies that needed to be implemented.

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318. She drew attention to page 11 of the document and observed that economic growth was indispensable to poverty alleviation and that the notion should be further developed in the paragraph rather than just glossing over it. She was, however, quite satisfied with the strategy proposed for tackling poverty alleviation. Added to the areas emphasized by previous speakers, she felt that it was absolutely necessary for the Bank Group to focus attention on primary health, basic education and grassroots agricultural projects. It was also important to promote the participation of the masses in project implementation. Emphasis was also to be put on family planning efforts since uncontrolled population growth was one of the factors responsible for poverty. She was happy that Management's document addressed that particular issue.

319. Furthermore, the document made reference to agriculture and rural development which were indeed key elements to poverty alleviation in the rural areas. Unfortunately, however, nothing had been said about urban poverty. She recalled that the Deputies had requested Management during negotiations on the ADF-V replenishment to prepare indicators for each of the objectives set under that replenishment for submission to the Board of Directors. She felt that the idea was a good one and requested that similar indicators be submitted in respect of poverty alleviation under ADF-VI.

320. The **CO-ORDINATOR** assured Deputies that Management would be invited later on to clarify issues raised by the previous speaker with particular reference to family planning and population as well as the indicators on poverty alleviation.

321. The **REPRESENTATIVE of SWEDEN** also fully associated herself with the comments made by the Canadian delegate on poverty alleviation. As she rightly pointed out, poverty alleviation had now been recognized as a top priority for resource allocation through bilateral and multilateral programmes. She suggested that the recommendations contained in the Development Committee and the conclusions outlined in the 1990 World Bank Development Report and the UNDP Human Development Report be taken into consideration by Management for integration into the ADB Group operational programmes.

322. She believed that the approach outlined by Management in the document could serve as a good basis for the Bank Group's activities with regard to poverty alleviation. She stressed the importance of including those aspects in the country strategies, the policy dialogue with borrowing countries and what the Canadian delegate had referred to as nationally defined social goals.

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323. As poverty alleviation was the focal point of ADF-VI, it was necessary that the Senior Management Task Force work expeditiously in order to submit its report early. It would indeed be desirable if the action programme for poverty alleviation could be ready for implementation before one third of the ADF-VI period had elapsed.

324. She would also like to stress the importance to be attached to women in development in the action programme; an absolute prerequisite for a successful integration of that element in the Bank Group's activities. Relevant staff such as experts in health and education, demographers and sociologists should be recruited. The redeployment and early retirement programmes should present new opportunities to employ such experts.

325. On environment and population, she said that, with the Bank's environment programme now in place, delegates were looking forward to a more vigorous implementation of the programme. Further strengthening of staff capacity was required in that area as well.

326. Population matters should form part of primary health care and education based programmes and should thus be integrated in those activities. In that context, she stressed the importance of close collaboration with other experts in those fields as well as more experienced organizations such as UNFPA and UNICEF.

327. The **REPRESENTATIVE of JAPAN** said that he supported all the areas identified by Management for priority consideration under ADF-VI, namely, women in development, poverty alleviation, environment, population and economic integration. In addition to those areas, he believed that the human resource development with particular reference to basic education should also be given priority as suggested by the delegates from France and Finland.

328. With regard to the environment, he expressed concern about deforestation and desertification in sub-saharan Africa. He also stressed the need to establish a link between those priority areas.

329. Finally, he said that while Japan recognized the need to strengthen the Bank Group's manpower resources for the earmarked priority areas, he was of the view that Management should be prudent in its recruitment exercise. It should first consider the possibility of abolishing redundant posts, redeploying the present staff and filling current vacant posts before embarking on new recruitments.

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330. The **REPRESENTATIVE of the UNITED STATES of AMERICA** supported most of the points raised by preceding speakers as well as the basic strategic guidelines contained in the document submitted by Management. She also agreed with those who had observed that more work had to be done in the identified areas. She endorsed the emphasis on sustainable growth and improved social services for the poor reposing on basic education and primary health care. Given that many African countries had sizeable segments of population falling below the poverty line and suffering from severe financial and administrative constraints, she believed that interventions targeted to particular groups should be limited.

331. She also recommended that the Fund focus operations on poverty alleviation which should also form part of the policy dialogue with borrowing member countries. The United States wished to point out that borrowers would be given the necessary assistance to develop national poverty alleviation strategies under the IDA-9 replenishment. The ADF should therefore be encouraged to work with IDA in that area.

332. She was of the view that country commitment to poverty alleviation should be a focal element in the allocation of ADF funds. The Fund should give priority to projects that would improve the productive capacities of the poor particularly in the areas of health, population, education and women in development.

333. As stated by other delegates, the Fund should increase its consultations with social agencies and NGOs in borrowing member countries. The Technical Assistance Fund should assist those countries to formulate policies on poverty alleviation and assess their impact on project results. The United States would also encourage the Fund to undertake regular monitoring and review of projects and programmes, to measure progress in meeting poverty alleviation objectives.

334. The **CO-ORDINATOR** drew attention to a new element in the observations made by the Deputy from the United States which was the possible direction and monitoring of operations in borrowing member countries through technical assistance.

335. The **REPRESENTATIVE of the UNITED KINGDOM** commended the Canadian delegate for a very thoughtful intervention on the question of poverty alleviation.

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336. He also believed that the guidelines in Management's document were in the right direction. Poverty alleviation was being one of the policy orientations identified as a priority in the current ADF-VI replenishment. He agreed with other speakers that more work needed to be done to operationalize the concept and to finalize the policy document. He hoped that the exercise would be carried out with great serenity.

337. It was clear that the inter-sectoral issues of poverty alleviation, environment and population growth were inter-linked and that they were the root cause of problems faced by developing countries, particularly, population explosion. The Fund should therefore give priority to them under the forthcoming replenishment. The problem could be tackled on the basis of a comprehensive approach covering not only the provision of family planning services through health services but also basic education, information programmes and the provision of economic opportunities for women. He felt that the population issue should be given more prominence in the Fund's policy dialogue with borrowing member countries and in the EPCPs.

338. With regard to the environment, he recalled having said at the Abidjan meeting that the Bank Group had an excellent policy paper on the matter. What was required in the subsequent three years were effective actions to translate those ideas into action. The UK, however, had reservation on the Bank's current capacity to respond effectively to all those operational demands and Management's clear messages regarding the need to recruit additional staff in order to implement those policy orientations over the next replenishment period. In his view, that did not really imply a large increase in the administrative budget. The redeployment exercise was underway and he believed that the scope for redeploying resources should be maximized to the full before a case for additional resources could be made.

339. One essential element he wanted to draw attention to, and which was highlighted in the World Bank's Long-Term Perspective Study on Africa, was the importance of good government. In his speech at that year's Annual Meetings, the President of the World Bank underlined once more that development was more likely to succeed where the government was honest, competent, responsive and just. He believed that such elements should be introduced in the policy discussions for the ADF-VI replenishment.

340. The Fund had to consider how it could respond to that general desire to promote and reinforce good government throughout the continent and in particular, how it could help member countries to develop more effective accounting and auditing priorities; more transparent and reliable legal systems and generally promote efficient and sound economic management. He believed that those observations should be included in the conclusions to the report under the general issue of cross sectoral priorities.

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341. The **CO-ORDINATOR** noted that the last point raised by the UK delegate added a new dimension to the discussion but that it was something of concern and relevant to whatever the Bank Group would be doing in areas such as poverty alleviation, environment, women in development and population. He agreed that more attention would be subsequently focused on the point by the international community and that the Bank Group should be sensitized to that process.

342. The **REPRESENTATIVE of BELGIUM** was happy that a consensus had emerged around the table that poverty alleviation was the cornerstone of any sustainable and durable development. The concept itself was not new to the Bank Group because it was said in the ADF report that it was necessary to satisfy the primary needs of the low income groups of the population and encourage direct participation of the ultimate beneficiaries in project implementation. He appreciated the fact that emphasis was being put on that priority. That was adequately reflected in the discussions held in the Development Committee as well as the Annual Meetings of the World Bank.

343. He endorsed the orientations Management recommended in its document with regard to poverty alleviation but regretted that much had not been said about the role of women in development. As regards the envisaged strategy, he felt that Management should be cautious about a totally economic approach because even though it was true that a favourable economic environment was indispensable to a viable project, it should be acknowledged that growth alone was not adequate to achieve poverty alleviation. Growth had to be accompanied by a series of measures. The basic requirement was that, borrowing member countries should pursue sound economic policies in structural areas. Policy based lending could be very fundamental in that context.

344. He subscribed to what the French delegate said about the problem of uncontrolled population growth as the tendency had nullified the substantial economic growth realized during the previous decade. Every one should have access to the basic social services so that the various population segments could enjoy the fruit of economic growth. It was also necessary to be careful about a qualitative approach. Management should ensure the active participation of the target population and the Bank Group should encourage policy dialogue with governments of borrowing member countries, local communities and NGOs.

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345. Poverty alleviation should therefore be fitted into the sectoral programmes of the Bank Group. As pointed out by the French delegate, what was envisaged under ADF-V, namely, the preparation of a certain number of indicators to measure the progress made in poverty alleviation, should be implemented by Management. Such indicators were indispensable as they would enable the Bank Group to monitor the progress made in borrowing countries and to encourage such efforts. Other institutions had such indicators particularly the Inter-American Development Bank where under each replenishment, a specific amount was earmarked for the poorest segments of the population.

346. The REPRESENTATIVE of the NETHERLANDS said that there was need to strengthen the poverty alleviation capacity of the Fund as the trend in most multilateral banks and Funds was to give priority to the operationalization of the concept. The core of Bank Group activities should therefore aim at that and Management should do everything to achieve it.

347. He welcomed the document submitted by Management which he felt was wide-ranging, comprehensive and honest in the assessment of previous activities of the Fund. He however regretted that under ADF-V, the Fund was not able to achieve the targets set by the Deputies during the course of the negotiations. The only source of encouragement was, as he had said earlier, Management's honest assessment of the situation. He hoped that, in the same spirit of honesty, Management would do everything to follow-up the priorities to be set under ADF-VI by State Participants.

348. The orientations given in the document were in the right direction but stressed that poverty alleviation should be an integral part of all the activities of the ADF including the EPCPs and the Technical Assistance Fund. He cautioned against the tendency to over-emphasize the macro-economic side of the poverty alleviation policy. He stressed that even at the project level poverty alleviation should remain a major policy area for the Fund. Nevertheless, it would be very difficult to measure progress made and he did not think that any institution had come up with a definite set of indicators and that it would be presumptuous to ask the Fund Management to come up now with transparent and applicable indicators. Nevertheless, the indicators previously requested under the fifth replenishment should be provided as soon as possible. Deputies could review them or discuss them during the mid-term review.

349. Finally, he regretted that Management had not included in the document the link between poverty alleviation, environment and women in development. Besides, he wanted clarifications on what Management intended to do in the area of population control and suggested that a brief summary of its intentions be prepared and submitted to Deputies.

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350. The **REPRESENTATIVE of SWITZERLAND** said that the Fund's performance under ADF-V with respect to poverty alleviation had not been very satisfactory. He considered the document submitted by Management on the subject as a very preliminary one pointing in the right direction but leaving many questions open particularly the implementation of such a policy. It contained many interesting suggestions which had to be translated into clear and determined plan of action for the years to come, starting as early as possible.

351. He would like to stress the importance of policy dialogue with recipient governments, the co-ordination with other donors, the participation of project beneficiaries in project implementation as well as the use of the capacity and experience of NGOs and local institutions. He looked forward to the report of the Senior Management Task Force and the policy paper to be submitted in 1991. As far as the environment was concerned, it should be recalled that NGOs had distributed a consensus document to State Participants. He regarded the concerns expressed in that document as real and honest. He would be grateful if Management could indicate in writing its position on the said consensus document.

352. The **REPRESENTATIVE of DENMARK** observed that the only paragraph - Paragraph 5.1.1.2 of document ADF-VI/CM.2/90/05 under discussion - dealing with population policy revealed a disturbing fact: even if the GDP increased in Africa, the number of the poor would without doubt rise from 180 million in 1985 to 265 million in 2000. That projection was extremely alarming, and the African countries should be more actively committed to resolving the problem of population growth.

353. Furthermore, his delegation endorsed the United Kingdom representative's remarks on the necessity for good government in the beneficiary countries. The point was an important issue for negotiations on the replenishment of ADF's resources, given the fact that good government and respect for human rights were regarded as primordial by public opinion, and consequently by the tax-payers and the governments of the donor countries. It was to be expected, therefore, that the resources available would give a pride of place to countries which gave priority to such questions.

354. The **REPRESENTATIVE of THE FEDERAL REPUBLIC OF GERMANY**, referring to the point raised by the Netherlands delegation on the manner of measuring progress towards poverty reduction, pointed out, as recently mentioned by the President of the World Bank, that there already existed objectives, norms and different indicators that could be utilized for that purpose.

355. The problem of population growth in Africa should be given the highest priority, and should be integrated into the policy dialogue between the African Development Bank and the governments of the beneficiary countries.

356. The need for good government, highlighted by the United Kingdom delegation, was not an abstract issue: it was, on the contrary, to increase in practice the efficacy of efforts being made to strengthen the economies. That point had been underscored also by the Nyerere Commission, which confirmed that democratic institutions, public participation, political liberty and the free choice of leaders were indispensable to development.

357. Moreover, regional cooperation in Africa had received only scant attention. The ADF should lay emphasis on it. The fact that intra-African trade, for instance, constituted only 0.5% of total African trade was disturbing. African countries continued to direct their efforts towards the industrialised countries, whereas regional cooperation could offer long-term benefits which were indispensable to durable expansion. That point should be addressed in the report.

358. As for future documents, sight should not be lost of the limited capacity of the ADB and ADF services. So many reports - notably those of the World Bank and the Asian Development Bank and the Report on Human Development - existed on the issue of poverty alleviation; as was abundant documentation on the question of women integration in development, among others. What was needed was to direct further efforts more towards concrete activities rather than theoretical research.

359. The **REPRESENTATIVE of CHINA** stated that his country, which was also a low-income economy, had learnt that the reinforcement of the agricultural sector was the most important means of reducing poverty. Yet, as indicated in paragraph 5.1.2.2, the ADF loan commitments to food production accounted for less than 12 per cent of all Fund operations, a figure that was clearly unsatisfactory, given Africa's current needs. The Chinese delegation therefore wished to have some indications on the expected increased investments in the agricultural sector.

360. The rate of population growth in Africa (3.1% per annum) was the highest in the world and generated social and economic problems that were increasingly difficult to resolve. China, which had had to deal with a similar problem itself, considered that greater emphasis should be placed on the strategies to be followed.

361. The **REPRESENTATIVE of AUSTRIA**, while associating himself with most of the previous speakers, felt also that education was the key to the future and that Africa should increase its efforts in the area of public participation. But as it was to be feared that Africa would be poorer in the 1990's, the only solution appeared to lie in structural adjustment. Thus, the Bank should give increased focus to the necessity for that adjustment in its policy dialogue with the governments.

362. Concerning population issues, it was regrettable that the United Nations Fund for Population (UNFP) was not yet cooperating with all the African countries, and ADB also had a role to play in that regard by striving to mobilise appropriate action.

363. As regards poverty alleviation measures, it was essential to draw the necessary lessons from the unsatisfactory experience of the Inter-American Development Bank and to ensure that the resources set aside for tackling the misery were effectively utilized.

364. The **REPRESENTATIVE of SPAIN** deemed satisfactory the future orientation which ADF proposed to give its poverty alleviation activities, even if, perhaps, they did not go far enough. In that respect, it was essential to qualify ambitious and credible objectives, and determine the indicators for measuring progress. Poverty alleviation was an issue that could not be left to market forces, but rather it belonged to governmental action. Unless governments gave its priority, ADF's efforts would remain futile. Its loans should be tied to a sort of social conditionality.

365. The **REPRESENTATIVE of PORTUGAL** felt, like the Representative of Denmark, that the principal problem was to reduce population growth in Africa.

366. The **COORDINATOR** invited Management's representatives to respond to the questions raised by the delegations.

367. Mr. **MWAMUFIYA (ADB)** said the ADF Management had duly taken note of the observations made by the delegates on the measures to be taken regarding poverty alleviation and the mechanisms to be put in place to increase the practical effectiveness of the activities undertaken.

368. As to the study of the indicators which was requested during the Fifth replenishment of resources, he explained that ADF had recruited for that purpose a Consultant who had already handed in his report. The report was being studied, and the indicators would be finalized and utilized during the period covered by the Sixth replenishment of resources to assess completed activities.

369. The ADB and Africa in general were very sensitive to the problem of population growth on the continent, which had very real and disturbing effects on development. To tackle the problem, which was the high rate of reproduction, itself linked to high mortality rate, even if it was on a downward trend, the Bank had mounted a sensitization and information campaign among the population with a view to strengthening the capacities to choose and train women so as to induce them to respond to motivations other than those of reproduction.

370. In the area of health, the existing elements and mechanisms would be strengthened and contribute to the formulation of a policy of really tackling the problem of population growth.

371. At the level of operational departments, despite the paucity of the population experts available, the Bank had carried out training activities in the field of population, and worked on the definition of a framework for a population policy. The task would be completed during the period covered by the Sixth replenishment of resources, perhaps at the beginning of 1992.

372. Management had likewise duly taken note of the comments on education, particularly basic education. As was reaffirmed by the Bangkok Conference on Education for All, it was necessary to put in place the necessary services, materials and infrastructure. All those elements tallied with the orientation of Bank activities in the field of education. It only remained to find the resources to translate them into reality.

373. Concerning the strategy which the Bank intended to follow on poverty alleviation, to assist in the formulation of relevant national policies, he explained in connection with the project for the strengthening of food security in Africa, jointly undertaken by the ADB, the UNDP and the World Bank, that the Bank had already adopted a methodology based on discussions and dialogue with the countries, as well as on an active participation of the private sector, non-governmental organizations and the beneficiary populations, especially in the health and education sectors.

374. Vice-President **LOUNES** declared that ADB was extremely concerned by population perspectives and assessments. In that regard, population policy should be put in its appropriate context. The Bank policy already included the principal elements of a population policy aimed, through the whole range of interventions, at facilitating demographic transition, in other words, to stabilise reproduction and reduce mortality. To reduce reproduction, emphasis would be placed on education, particularly of the poor and women, and on measures to raise the labour force participation rate, notably among women.

375. It was also important to encourage the introduction of women in economic and social activity: efforts to strengthen women participation in development would consequently become an essential element of action to reduce poverty in general. Health efforts would be directed particularly at maternal and child health, an element that was already embodied in the Bank policy.

376. On the need to encourage good government, it was unquestionably useful to undertake sensitization efforts on account of the close linkage between the forms of government conducive to enlisting agreement, public participation, equity in the application of policies and the redistribution of social progress in favour of the masses, and the underprivileged segments of the population. However, it was an extremely complex problem, the effects of which should be studied carefully. The ADF objective was to promote economic development, and its efforts should not be subjected to a political conditionality; inasmuch as it was already difficult to define the indicators, it was still more difficult to define political performance indicators.

377. The **COORDINATOR** was gratified by Management's intention to draw up a synthesis document on the matter, which all the participants were agreed should be given particular attention. The ADF and the ADB should play a more active role in order to integrate population education within basic education as well as within health sector activities.

378. **Mr. MERGHOUB** (ADB) explained that the issue of poverty alleviation, which the participants had discussed at length, was one of the areas in which coordination efforts had been most effective, as demonstrated by policy-based loans granted under the SPA. There were regular consultations with the donor countries and the international organisations, as well as close cooperation with the World Bank, the UNDP, the executing agencies, the SPA, etc.

379. It was also worth mentioning a second initiative, in the wake of the report published by the World Bank in 1989, under which the Bank worked with the governments to formulate long-term national perspectives aimed chiefly at reducing poverty and ensuring better government. Those efforts placed marked emphasis on public participation, especially at the level of grass roots, community organisations and NGOs in African countries.

380. It should likewise be mentioned that a mechanism already existed - the system of Economic Perspectives and Country Programming (EPCPs) - which made it possible, through policy dialogue with the governments, to ensure that ADF loans were directed to poverty alleviation in all the sectors.

381. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** wished to make two clarifications on the action to be taken on population. Firstly, at the political level, in relations with the governments, Management should strive actively to induce political leaders to give the matter all the importance it deserved and, as stressed by the World Bank President, to move from words to acts.

382. Secondly, at the operational level, the ADF, as a regional development institution, should be in the frontline and see to it that the populations really participated in project preparation and execution, particularly through mass organisations and NGOs. It was only in that way that they could identify themselves with projects and support their implementation.

383. The **REPRESENTATIVE of the UNITED KINGDOM**, referring to his previous statement on the need for good government and Mr. Lounes's statement that the Fund should foster economic development without being subjected to a political conditionality, made it clear that such was not his intention. Nevertheless, it was becoming increasingly clear that a close correlation existed between good government and economic development, and his observations should be interpreted in the light of that consideration. He would like that clarification to be correctly reflected in the conclusions of the meeting.

384. The **COORDINATOR** remarked that the participants would revert to the matter as a distinct item at the next meeting when an appropriate way of referring to it in the draft recommendations could be considered.

385. Summing up the discussion on the issue of poverty alleviation, he said that the participants had, essentially, commended the document on the general orientation of the future activities of ADF on the subject, which fully corresponded to the flowering of a consensus, at the international level, on the manner in which it should be tackled. The participants also recognized

that the general guidelines should be operationalised in a more precise manner. To that end, they looked forward with interest to the report of the recently constituted Senior Management Task Force on Poverty. It was essential for the said Group to conclude its assignment as early as possible, and latest during the first quarter of 1991. In that connection, it was advisable to take due account of the practice in other international organisations.

386. Furthermore, Management had taken note of several useful points, and in particular the general desire voiced by the participants to see poverty alleviation included in policy dialogue with the governments and in the EPCPs. The desired objectives should be defined by the beneficiary governments in cooperation with ADF and other donors.

387. The participants underscored the necessity to conclude rapidly the ongoing work on the finalization of the indicators. The fact that the preliminary report on the subject had been received constituted a positive element. The participants expressed their strong desire to see specific guidelines formulated on action to be taken on population, and discussed the matter at length. It was doubtful whether the work could be concluded within a few weeks, but it should be accorded the highest priority to ensure conclusion before the end of 1991.

388. Finally, the question of the environment was discussed. He called upon the delegations to put forward their views in detail on the matter.

The sitting was suspended at 1.10 p.m. and resumed at 2.50 p.m.

389. The CO-ORDINATOR observed that discussions on staffing and sectoral matters had been suspended and that the delegates should now move on to the pivotal issue of the scenario to be aimed at. An initial 4-scenario proposal had previously been presented, and should be kept in mind.

390. At that juncture, he wanted to go round the table to get reactions on the burden-sharing scenario and all the allied issues. The choice of an appropriate exchange rate for the ADF-VI period was equally tied to the item.

391. The REPRESENTATIVE of the UNITED STATES of AMERICA recalled that his country was presently passing through a period of budgetary austerity, hence it was difficult at the present stage to determine the size of its contribution.

392. He looked forward to the continuation of exhaustive discussions on the fundamental changes to be effected in the Institution, particularly regarding the improvement of loan and EPCPs quality, and the determination of country allocations according to performance. All those points were essential and deserved special attention. His delegation was not prepared to talk about the volume of replenishment at the present time.

393. The **CO-ORDINATOR** assumed that even if the United States was unwilling to speak about the size of its contribution at the moment, it would at least wish to maintain its shareholding provided the total volume was placed within the context of budget restrictions. Since it had not yet taken a definitive position on the matter at present, he would like to know if the American delegation was not against any of the scenarios proposed by Management.

394. The **REPRESENTATIVE of the UNITED STATES of AMERICA** replied that his country's participation would be determined by the capacity of the ADF to conceive for the future a programme fundamentally different to the previous ones. He reiterated the high priority which his authorities attached to performance indicators; he must, though, recognize the fact that he had been favourably influenced by the very interesting deliberations which took place on the issue and others. That encouraged the feeling that even if much remained to be done, Management would carry out its task satisfactorily. He could not make a pledge that his country would maintain the same level of contribution as that of ADF-V.

395. The **REPRESENTATIVE of the UNITED KINGDOM** conceded that the need for concessional resources in Africa was enormous and that in several countries, those needs would become even greater due to the Gulf crisis. The ADF was only one of the many channels of concessional aid in Africa, and it would be helpful to make an objective assessment of the relative capacity of the different sources of concessional aid.

396. The Fund had grown considerably in recent years, and it should be recognized that it had improved its capacity as a channel of concessional aid, but the latest observations showed that it had still a long way to go both in terms of policy orientation and project quality and efficacy. In the circumstances, the ADF-VI period would, for the United Kingdom, be a period of consolidation, improvement of the efficacy of operations, reinforcement of the quality of the professional staff of the Bank, and deepening of the policy orientation just discussed.

397. On the whole, one should aim at the maintenance of the real value of ADF-V under ADF-VI. It was therefore essential to assess realistically the maintenance of value. The appropriate methodology of calculation of value was the one used for IDA-9 inflation assumptions; the inflation rate of African countries should not be taken into account in the calculations. They should in principle be compensated by exchange rate adjustments under conditions of suitable policies; thus, it was not incumbent upon donors to provide concessional funds to compensate policy shortcomings.

398. As for burden-sharing, the United Kingdom was prepared to maintain its contribution, it being understood that the amount would be limited to the volume which he mentioned earlier. If the size of replenishment were too high, his authorities would be compelled by budgetary constraints to reconsider whether or not to maintain their current share.

399. The CO-ORDINATOR drew attention to a basic difference between the ADF and the other channels of multilateral aid. Under the EDF agreements and those of the Lome Convention and IDA-9, expenses started after the commitment period, whereas in the case of ADF, disbursements from commitments under the next replenishment would lapse at the earliest in 1996. He urged the United Kingdom delegation to bear in mind those differences which might impact significantly on the alleviation of the burden during the ADF-VI period.

400. The REPRESENTATIVE OF SWITZERLAND pointed out that his authorities had always accorded top priority to aid development for Africa. From its inception, Switzerland had played an important role for the establishment and functioning of the ADF.

401. He observed that over the last years, the Fund had been grown rather rapidly, it was consequently necessary to give further attention to project efficacy and quality.

402. He also underlined the fact that his country's contribution to ADF was relatively high and that his Government had therefore decided to normalize that share.

403. The REPRESENTATIVE of SWEDEN observed that the discussions had been useful in all respects, they had enabled Management to know the priorities of the donor countries, and to appreciate the seriousness which the State Participants attached to reforms and improving the Fund's activities.

404. Sweden was now waiting for Management's reactions to the points raised by the Deputies. It expected in particular the formulation of a suitable policy framework on the basis of which the ADF would function in the three years ahead. His authorities attached considerable importance to the improvement of country programming, the preparation of EPCPs and the policy dialogue behind it. They also gave priority to primary health-care, the role of women in development, poverty alleviation in an environment of sustainable growth. If that environment were effectively put in place, Sweden envisaged a substantial replenishment of ADF.

405. The Swedish delegation was in favour of the IDA-9 concept for calculating the real value of replenishment.

406. The **REPRESENTATIVE of SPAIN** stated that he had not yet received any indications from his authorities on the size of their contribution to ADF-VI. Owing to the serious economic situation of the country, the authorities had adopted a budgetary austerity policy.

407. He then highlighted the need for realism, which would necessity eliminating scenarios I and IV and concentrating on scenarios II and III. On that basis, he hoped his country could maintain its contribution to ADF.

408. The **REPRESENTATIVE of SAUDI ARABIA** observed that the foregoing discussions had made it possible to know the value of ADF-VI. All the delegations realized the immense needs of Africa which had to obtain aid from several sources.

409. He recalled that during the first meeting in Abidjan, he had stated that the Kingdom of Saudi Arabia had constituted a committee to review its policy on bilateral and multilateral international aid. But as a result of the Gulf crisis, it was not possible at present to determine the Kingdom's contribution to ADF-VI.

410. The **REPRESENTATIVE of PORTUGAL** reiterated his country's priority to aid the poorest countries. It intended to maintain its contribution to ADF which was higher than its shareholding in ADB. His delegation would like the Sixth Replenishment of ADF Resources to be substantial, and supported the use of IDA-9 methodology.

411. The **REPRESENTATIVE of NORWAY** observed that the discussions had placed emphasis on performance. In that connection, he felt that certain promising performance indications of African countries should not be under-estimated; they had embarked on a transformation process which deserved to be supported. That support should be translated into sufficient and additional concessional resources.

412. The ADF was a vehicle for channelling those resources. If, as donors, the State Participants failed to provide significant aid to sustain the transformation process, they risked nullifying the on-going efforts. Therefore, Norway was clearly in favour of a substantial increase of ADF resources. The goal should be to maintain at least the real value.

413. He would, on purpose, not comment on the calculation methodology but felt that at least scenario 3 should be maintained and that scenario 4 be equally explored. If at the end of the day, the donor community did not maintain at least the real value of ADF, it would then have sent negative signals to Africa at the present crucial moment of its history.

414. As to burden-sharing, he noted several anomalies : one of them was that certain major donors had severely reduced their shares whereas the four Nordic countries, a group of small donors, bore a heavy burden. That should not be so.

415. The **REPRESENTATIVE of the NETHERLANDS** was satisfied by the conduct of negotiations so far, he observed a certain spirit of co-operation, and urged his colleagues to preserve it.

416. He hoped that that willingness to make mutual concessions would culminate in a balanced burden-sharing. Considering the recent demands made by the delegates about policies, and given the enormous needs of Africa, a slight increase in the Fund's resources in real terms would be desirable. For reasons of consistency, the Netherlands was in favour of the IDA-9 methodology for calculating the real increase of ADF's resources.

417. His country was prepared in principle to maintain its share provided a balanced burden-sharing mechanism was put in place. The Netherlands felt that the State Participants should contribute more to the ADF than to the ADB.

418. The **REPRESENTATIVE of KOREA** was fully aware of the different unfortunate circumstances which prevented Africa from successfully applying certain reforms. His delegation had listened carefully to all the observations made but thought that the scenario envisaging FUA 4 billion was rather ambitious. The matter needed to be exhaustively discussed.

419. The **REPRESENTATIVE of JAPAN** recalled that during the Annual Meetings in Abidjan, he had stressed the necessity to share the burden in keeping with the historical, geographical and economic ties with Africa. But he did not wish that philosophy to be interpreted as a lack of goodwill towards development aid to Africa. On the contrary, his country had always made significant contributions to different windows of concessional aid.

420. Nevertheless, the present system of burden-sharing under ADF was clearly unsatisfactory. There was always an imbalance between the State Participants shareholding in ADB and their contributions to ADF.

421. Besides, he observed that countries making substantial contributions to bilateral aid tended to reduce their shares of multilateral aid. He disapproved of that approach because it was liable to destroy the multilateral institutions. When one took all the above points into consideration, Japan's share of the burden was not at all rational. He would deploy all the necessary efforts to have his authorities modify their present attitude, namely, that Japan should no longer be one of the major donors. But to that end, the burden-sharing should evolve clearly in the direction which he indicated earlier. Otherwise, the success of the negotiation was doubtful.

422. Concerning the volume of the replenishment, in view of the necessity to adjust contributions in the light of the budgetary difficulties confronting most donor countries, it was uncertain whether a total volume higher than that in scenario I could be obtained.

423. The **CO-ORDINATOR** voiced some concern about the Japanese delegate's remark that they should not go beyond scenario 1. He recalled that scenario 1 was the nominal amount of ADF-V which represented a reduction in real value. It seemed to him that the delegations had agreed not to use that scenario as a working basis. He hoped that Japan would not maintain that position.

424. The **REPRESENTATIVE of ITALY** requested that his comment be seen in a positive light. He noted with surprise in paragraph 2.2 that the deflator based on the Manufacturing Unit Value (MUV) index to be taken into consideration was equal to 10%; that of IDA-9 was about 7%. In any case, it was inappropriate to adopt for calculations the Consumer Price Index used for Sub-Saharan Africa.

425. He wanted to know what would happen to burden-sharing in the event of a possible scenario envisaging the volume fixed during ADF-V plus 7%.

426. He commented on the observations made about the revision of the Maastricht agreement regarding participation in ADF and ADB not only at the level of the non-regionals but also at the level of regionals. In his opinion, taking geographic data and political consideration into account was liable to place a dangerous burden on the Institution as a whole. The replenishment exercise should rather be an opportunity to highlight the multilateral character of the largest financial institution in Africa. They should follow the example of the World Bank where non-regionals and regionals were on the same level of equality.

427. Regarding Italy's share of the burden, his country was ready to increase by 7% its contribution to ADF-IV; but was unable to repeat the ADF-V feat of 22%. In that connection, he informed his colleagues that that very morning his Government had decided for the 1991-1993 period to set the ceiling on its development aid at 5,000 million Italian Lira, 40% of which would go to multilateral institutions. He declared his willingness to study administratively the possibility of ADF having the same arrangements as those of IDA-9.

428. The **CO-ORDINATOR** said that last point should be examined more attentively so that the ADB experts would know what was done under IDA-9. Since there appeared to be a convergence of views among the State Participants on the issue of inflators and deflators the appropriate method to use would be the IDA-9. However, it was worth noting that the figures needed to be updated not only in the light of the latest economic perspectives of IMF but also of the Gulf crisis. The experts would thus have an additional work to do on that aspect of the matter.

429. The **REPRESENTATIVE** of the **FEDERAL REPUBLIC of GERMANY** urged his colleagues to do their utmost to maintain the real value of ADF-V, given the prevailing situation in Africa as well as the often painful adjustment efforts being undertaken by a good number of African countries. He shared his Norwegian colleague's view that they should avoid sending a wrong signal to Africa.

430. The issue of maintenance of value should be viewed within the context of IDA-9. He also stressed the necessity for the ADF to embark on a consolidation phase.

431. It was also necessary to recognize the recent efforts made by the donors under IDA-9 and Lome IV Convention. The amounts allocated to the two windows represented more than 30,000 million United States dollars, a major part of which would be allotted to African countries South of Sahara.

432. It was only fair to recognize the efforts of the donors which had made substantial contributions to the above-mentioned funds.

433. The Federal Republic of Germany had made huge contributions to them, it was classified in the third position for IDA-9, and was by far the number one contributor to Lome IV.

434. He underlined the need for all the donor countries to feel responsible for every part of the developing world. A particular region of the Third World should not be the exclusive responsibility of a single donor country; such an attitude was not only unfortunate but was also dangerous for the future.

435. He concluded by underlying the importance to be attached to performance, poverty alleviation, the environment and the integration of women in the development process. The implementation of such a framework would enable the delegates to contribute as much as possible to ADF-VI.

THE MAINTENANCE OF REAL VALUE OF ADF-VI COMMITMENTS (ADF-VI/CM.2/90/06) (agenda item 3.4)

436. The **REPRESENTATIVE of FRANCE**, referring to the methodology to be used for calculating the replenishment volume, felt that the best assumption to be used as a basis was that of the IDA-9. As far as the replenishment amount was concerned, she believed that her colleagues should ponder seriously over the efforts every State Participant was required to make under ADF-VI. As regards France, she recalled that her authorities had made a strong pledge at the LDC conference in Paris three weeks earlier to give substantial assistance to the poorest countries. France would therefore increase its aid efforts to 0.2% of the country's GNP during the next ten years. She believed that a number of donors around that table were making similar efforts and pointed out that the ADF replenishment exercise fitted perfectly into that context.

437. She drew attention to the fact that non-oil producing African countries would definitely figure prominently among those that would be worst affected by the current crisis in the Gulf. Besides, they were very vulnerable to changes in international economic policies. All those factors should be taken into account when determining the volume of the ADF-VI replenishment.

438. The remark she would like to make was related to that morning's discussion on the access of member countries to ADB and ADF resources. Most Deputies had already said that only the poorest countries should benefit from ADF resources and that except for highly profitable projects, they should not be given the cause to take ADB loans. Given that context, delegates should take the necessary decisions that could bring about a substantial replenishment.

439. Concluding, she said that she was surprised about the notion of geographical and regional interests that prevailed in determining the amount some donors would contribute in given circumstances. She therefore supported the observation made by her German colleague in that regard. In fact countries that were likely to benefit from the Gulf crisis should endeavour to make appreciable contributions under that replenishment. She stressed that France was looking forward to a substantial replenishment of the Fund's resources.

440. The **REPRESENTATIVE of FINLAND** said that her country had always participated in replenishment negotiations with an open mind. Africa occupied a central place in Finland's bilateral assistance to developing countries. She therefore believed that it would be essential for the results of the current negotiations to be positive. As everyone was aware, Africa was in a very difficult situation and it was encouraging to note that the resources of certain agencies such as the IDA-9 would be, to large extent, channelled to African countries.

441. Nevertheless, she was not in position at that stage of the negotiations to take any definite position but the recommendation she would be making to her authorities would be based on the progress made in the discussions on policy issues, the replenishment volume as well as the methodology for determining it. In any case, her country's wish was the maintenance of the real value of ADF-V under the present replenishment.

D/ES

442. The **REPRESENTATIVE of DENMARK**, referring to the exchange rate problem, suggested the utilization of the overall exchange rates over the last six months prior to the conclusion of those negotiations. He recalled that a similar method was approved by Deputies under the ADF-V.

443. As for burden-sharing the traditional point of departure for any negotiation had normally been the previous share of the State Participant concerned. He supported in principle those who had linked Fund shares with Bank shares.

444. As far as his country's position on the volume of the sixth replenishment was concerned, he pointed out that the Danish Development Association had always given high priority to the development efforts of African countries as amply demonstrated by the country's contribution to the ADB and ADF which was quite high considering the economic capacity of some other donors. He, however, stressed that his country's share under ADF-V should be seen in the context of an aid programme of 0.94% of GNP which would increase to 1% by 1992 but beyond that, there would be no further scope for an increase in aid resources. That fact would serve as a guide to Denmark's approach to the current replenishment exercise. His country was ready to make the necessary efforts to maintain its share under ADF-V but stressed that other donors should endeavour to make similar efforts. He suggested that particular attention be paid to countries that had very low shares in the Fund as well as those whose Fund shares were far below their Bank shares.

445. With regard to the possible size of the replenishment, he felt that much progress had been made in the discussions on policy issues although their conclusion was necessary for fixing the replenishment level. Nevertheless, his country was looking forward to a substantial replenishment. In more practical terms, he felt that it was advisable to limit the number of scenarios to two and work towards the maintenance of the real value of ADF-V under the sixth replenishment on the basis of the IDA methodology.

446. The **REPRESENTATIVE of BRAZIL** said that his country, being itself a developing country, was very committed to the African cause. Although a founder member of the Fund, the current economic difficulties facing Brazil coupled with its budgetary constraints might not even make it possible for the Government to maintain its current contribution under ADF-VI.

D/ES

447. The **CO-ORDINATOR** observed that the Brazilian delegate was not in position to make any firm commitment with regard to the forthcoming replenishment. He, however, hoped that the authorities would carefully consider the document on the burden-sharing indicators and particularly paragraph 13 which was of relevance to Brazil's particular situation given the very special efforts the country had made in other Funds for the benefit of countries in a more difficult economic situation.

448. The **REPRESENTATIVE of CHINA** informed his colleagues that his country was prepared to maintain its ADF-V share under the sixth replenishment of the Fund's resources and to go along with the decisions taken by the majority during those negotiations.

449. Furthermore, he stressed that China's situation was quite different from that of most donors in the sense that the country itself was a low income developing nation, currently facing a difficult financial situation. The contribution to be made to ADF by his government would therefore not be significant. Nevertheless, it would serve as a symbol of traditional solidarity and mutual support existing between China and African countries in the cause of modernization and economic development.

450. The **REPRESENTATIVE of CANADA** said that her country's place in the ADF was well known with a current participation level of 10.5% in the Fund's resources as well as past contributions of up to 15% with a cumulated third place in terms of contributions which meant that Canada had been up-front for a long time. There were good reasons to justify that position, namely, Canada was a founding member of the Fund, made special efforts to put it in place and to contribute to very large replenishments in the past. She however pointed out that it was difficult to maintain such a position indefinitely.

451. With regard to burden-sharing, she recalled that the view had been that the 2/3 / 1/3 rule should continue to apply but the application of that rule should depend on the level of one's contribution to the Bank's resources and Canada's subscription was quite high. While she supported the view that a donor's Fund share should be higher than its Bank share, it was to be noted that the participation in the Bank's equity was not solely based on mathematical calculations but also on the level of commitment.

D/ES

452. Canada's budget had been undergoing cuts for the previous two years. Although, the development assistance budget had been protected to a certain measure, there were some cuts on the ODA budget. The current rounds of replenishments were therefore the first to come up since the reductions were carried out and that put a special onus on her to defend the allocations earmarked for the IFIs. Money should go to where it could be rationally utilized.

453. There were no doubts about Canada's commitment to Africa. However, as a major donor, her country expected to be able to play an influential role in the management of the Institution. One item which did not appear on the agenda of those negotiations was the question of management policy issues. They had been raised and discussed extensively in the context of the mid-term reviews of the Bank and the Fund. What was of importance to her Government was the extent to which the Bank and the Fund Management could meet those concerns. In fact Canada would be among those countries that would suggest that a mid-term review be put in place under ADF-VI since that of the ADF-V came up very late to have any impact.

454. Her Government had not yet decided on its position on ADF-VI but she would support the suggestions made around the table to maintain the value of ADF-V and the need for the Fund to enter a period of consolidation after the very large increases in previous replenishments. She therefore joined those who had asked for a table on the maintenance of value. She was also in favour of the use of IDA-9 methodology for calculating the replenishment level but she would be willing to consider the various elements involved in terms of the effect of the recent Gulf crisis on inflation. There would therefore be minor adjustments to be made. She said that Canada's share under ADF-VI would depend on the outcome of subsequent discussions but specified that it would be lower than the 10.5% contributed under ADF-V.

455. The **CO-ORDINATOR** stressed the valuable services Canada had rendered to the Bank and Fund in the past and appealed to the Canadian delegate to ensure that that brilliant performance was maintained.

456. The **REPRESENTATIVE of BELGIUM** said that replenishment negotiations were always difficult and that the exercise in progress would not be an exception. Furthermore, recent developments particularly in the Gulf had introduced a supplementary note of uncertainty which was underscored by the inability of the international community to determine the possible duration of the crisis. It was quite evident that sub-saharan Africa would be the worst affected victim of the said situation and account should be taken of that in the negotiation.

D/ES

457. Belgium had a process of evaluating the consequences of the crisis as well as the resources that could be made available in order to be in a position to help the worst affected countries and that process entailed the provision of adequate resources and the channels to be used for their transfer to the beneficiaries..

458. In the light of the very tight framework within which the Government was operating, Belgium would give priority to the effective utilization of resources and country performance. On a personal note, however, he felt that it would be dramatic to base the negotiations on scenario I but at the same time scenarios III and IV were not very realistic. The future discussions should therefore be situated between those two extremes.

459. He drew the attention to the fact that the ADF had made rapid progress over the last few years and as already suggested by some Deputies, the Fund's Management should give some thought to the consolidation of what had already been acquired.

460. He recalled that traditionally, it had been the policy of Belgium to maintain its shares. In fact, the country's shares had relatively increased since ADF-III. Unfortunately, in view of the current budgetary constraints, he could not confirm that the situation would continue to be the same in the future. On the contrary, he feared that the present shares could be readjusted should the volume of replenishment be very substantial.

461. With regard to the exchange rate to be used for currency translation, he supported those who had recommended the application of the average rate of exchange of the six months preceding the conclusion of the replenishment negotiations.

462. The **REPRESENTATIVE of AUSTRIA** was in support of a substantial replenishment. He recognized the difficulty faced by non-oil producing African countries and expressed the hope that institutions such as the World Bank could one day establish a Fund that would come to the aid of countries worst affected by the oil crisis.

463. With regard to his country's share, he observed that Austria's shares in the Bank were lower than those in the Fund and that its ADF shares were its highest compared to those in other regional Funds and IDA. His country's bilateral assistance programme gave preference to Africa.

D/ES

464. He, however, did not agree with the suggestion made that morning to replace the FUA with the BUA because it would not be possible to substitute concessional funds for non-concessional funds.

465. The **REPRESENTATIVE of ARGENTINA** said that he could not unfortunately make any pronouncement on the sixth replenishment at that stage. He however made reference to his country's previous delays in depositing its instruments of subscription and thanked State Participants and other interested parties for the kind understanding and flexibility they had shown in that regard. His colleagues were aware of the economic constraints of Argentina. Nevertheless, his authorities were very conscious about the country's obligations to the ADF and would make every effort to be in position to co-operate as a developing country with its sister countries of Africa for the attainment of common development goals.

466. The **REPRESENTATIVE of CANADA** thanked the Co-ordinator for his reference to Canada's role in the establishment of the ADF. Making reference to the point made by her German colleague about global responsibility, she said that Canada made high percentage contributions in the regional banks and that her country could not maintain that position if concrete results were not seen. Her government had the special responsibility as a major donor to push through the kind of reforms it was seeking. It was not a question of blind faith. Specific results should be obtained within the scope of those negotiations for Canada to maintain its level of contribution over the years.

467. Furthermore, the delays on drawdowns was not favourable to Canada. Her country's budget was established on commitment basis and the commitments to IFIs was based on the issuance of notes so it had an immediate effect. Right now Canada was experiencing the effects of decisions made several years ago. She was therefore under the dual responsibility of managing commitments in terms of issuance of notes and to make sure that her successors did not suffer in 1996 from the encashment of notes she would have promised in 1991.

468. The **CO-ORDINATOR** thanked the Canadian delegate for her first remark which, he was sure, had been carefully noted by Management. Such statements gave the encouragement to all Deputies to try to reach conclusions on policy related issues to which discussions would soon be reverted and which was vital for determining the position of not only Canada but certain other State Participants on the level of replenishment.

D/ES

469. With regard to deposits, he felt that the possibility of an alternative arrangement for the deposit of notes could be a way of easing difficulties to enable certain State Participants to make the actual pledges they had in mind.

470. The **REPRESENTATIVE** of the **NETHERLANDS** said that burden-sharing and the actual size of the Fund did not relate to one particular moment in time but covered the whole replenishment period. The Fund's purchasing power was to a large extent influenced by the exchange rate movements. He would therefore like the Co-ordinator and Management to focus on the equity of burden-sharing so as to enhance the purchasing power of the Fund using the following three possibilities, namely, the implementation of an encashment schedule based on the pool system used by IDA, the pro-rata encashment system recently adopted by the IBRD which was based on the SDR or UA equivalent of the obligation and not the unit of obligation. The third option, as indicated in paragraph 13 of the relevant document was the possibility used under IDA-9, which obliged countries with high inflation rate to pay in convertible currencies and preferably the SDR. In his view, the above three instruments were extremely relevant to an equitable burden-sharing.

471. The **CO-ORDINATOR** said that if the options were to be followed-up then Management should prepare the necessary document for the consideration of Deputies at the subsequent meeting. The question of altering the encashment arrangements could have an impact on most State Participants in several ways and the issue needed to be further discussed. He, however, assured the Dutch delegate that note had been taken of his suggestions. The third point on the payment in convertible currencies had also been noted. It was recalled that the system in the Inter-American Bank required participants to pay in US dollars. All those issues needed further consideration by Deputies.

472. The **REPRESENTATIVE** of **AUSTRIA** wanted clarifications from the Co-ordinator concerning his statement that encashment under ADF-VI would start in 1996. He wanted to know whether the Fund would not need any liquidity for quick disbursing loans approved at the early part of the new replenishment period.

473. The **CO-ORDINATOR** said that his understanding was that the drawdown would be made from the existing notes and according to the projections made by Management those notes which were pool based, had already been deposited.

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474. Coming back to issues discussed earlier that afternoon, he recalled that as far as methodology was concerned, there was a consensus that Management should use for the necessary calculations, the IDA-9 methodology with the updatings which could be obtained through consultations with the IMF and other relevant institutions.

475. Secondly, there was some support for the staff to prepare revised tables based on the formula proposed by the Danish delegate in connection with the maintenance of the real value of ADF-V.

476. With regard to the size of the replenishment, it was obvious that most State Participants were not in position to give their views thereon and for many others, the decisions that would be taken on policy issues would have a major impact on the positions they would subsequently adopt. However, most Deputies were of the view that the real value of ADF-V should be maintained.

477. Views had been exchanged on the burden-sharing and his impression was that it was going to be a difficult area although he felt confident that given the evidences of goodwill and political intentions demonstrated even by Deputies who had been instructed to seek lower shares, State Participants should be able to arrive at a consensus on the matter before the close of negotiations. Time was extremely short and Deputies were requested to think seriously about the issue on the basis of figures to be provided by Management coupled with the declared intentions of Japan and Canada to cut down on their shares. He recalled that Japan wanted essentially to see a more general evolution in the pattern of burden-sharing in the Fund. The matter was to be discussed further.

478. Views were also expressed in connection with the need for a link between the levels of State Participants' shares in the Bank and the Fund and he believed that the matter could be given further reflection.

479. On the exchange rate, two State Participants had endorsed the idea of using the six months latest average as a basis for determining the FUA for the ADF-VI period. In any case, there was need to choose an exchange rate that gave State Participants sufficient certainty in establishing their national currency obligations. That decision had to be taken not later than the next meeting. Management should prepare updated figures on the second alternative scenario in the table.

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480. The **REPRESENTATIVE of the UNITED STATES of AMERICA** observed that most of the discussions that afternoon had been focused on the scenarios. He would however want to caution Management and his colleagues that his country was not yet in position to accept scenarios I and II which had been at the centre of the deliberations. He nevertheless, expressed the hope that a policy framework would be put in place with appropriate reforms to justify the maintenance of the real value of ADF-V. There was a scenario less than the proposed scenario I with which his Government would be much more comfortable.

The meeting was adjourned at 4.40 p.m. and resumed at 5.05 p.m.

OTHER REPLENISHMENT ISSUES : ALLOCATION AMONG ELIGIBLE COUNTRIES
(ADF-VI/CM.2/90/12) (agenda item 4)

481. The **CO-ORDINATOR** opened the floor for discussion of the draft paper on allocation among eligible countries (ADF-VI/CM.2/90/12).

482. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** suggested that some provision be made for a monitoring system to ensure that the allocation policy to be instituted was working properly. He also wondered whether the system outline provided adequate ensurance that some countries might not recieve allocations at the expense of others.

483. The **CO-ORDINATOR** pointed out that paragraph 3 provided that countries would be limited to a maximum of 125 per cent of their ideal indicative figure.

484. The **REPRESENTATIVE of BELGIUM** suggested that geographic location, which was an important factor for many countries., such as the landlocked African countries, should be added to the list of criteria for allocation.

485. The **REPRESENTATIVE of DENMARK** felt that care should be taken to avoid establishing too minimal a programme, which might be administratively unfeasible.

486. The **REPRESENTATIVE of SWEDEN** suggested that " efforts to achieve growth with equity" might be added to the list of criteria in paragraph 1. That was the formulation that had been adopted by IDA in its definition of performance.

487. He assumed that other, more specific criteria would be worked out by Management and presented for discussion at a later date.

488. The CO-ORDINATOR said that Management could be asked to work out and present more specific criteria.

489. The REPRESENTATIVE of AUSTRIA said he did not think geographic factors such as being landlocked were important enough to be included as a specific criterion.

490. The REPRESENTATIVE of FRANCE felt that geographic factors should not be left out completely, although the importance attached to them might be reduced. Performance was an important criterion, but the 25 per cent enhancement factor referred to in paragraph 3 seemed somewhat high; perhaps it could be re-examined in the course of the mid-term review.

491. The CO-ORDINATOR pointed out that the 25 per cent figure was a maximum to be applied at the discretion of Management. Management had been consulted and regarded the system outlined as workable. He agreed that the 25 per cent figure might usefully be reconsidered in the course of the mid-term review.

492. The REPRESENTATIVE of CANADA said he was not sure that the PBL operations should be kept separate from the programmeable indicative figures. Given the importance of performance, he also wondered whether the 25 per cent figure laid down in paragraph 3 should not be higher.

493. The CO-ORDINATOR said that the performance criterion would also be reflected in the country programming; he agreed, however, that an effort should be made to avoid gross distortions as a result of PBL adjustment. The figure of 25 per cent had seemed a reasonable one to the working party; it was of course subject to discussion.

494. The REPRESENTATIVE of the UNITED STATES of AMERICA said that assessment of the policy environment and macroeconomic situation of a country were essential for any decision on allocation, with the exception of the core programme. EPCPs could then be used to help further refine the assessment. In IDA, countries with a poor policy environment were excluded from any but the core programmes. The ADB/ADF system had reached a turning-point in its history; it was essential at present to adopt performance as the basic criterion.

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495. The **CO-ORDINATOR** said the United States representative's comments raised two problems. The first was whether the basic figure of 75 per cent left for the core programme was too large; if that was the general view it could of course be reduced. The other problem was that of performance, and whether a litmus test could be established for it. The text he had offered kept closely to the language used by IDA: it referred to three criteria, but did not specify nor could it indicate exactly how they were to be applied.

496. The **REPRESENTATIVE of the UNITED KINGDOM** felt that the proposed system might leave too much scope for the exercise of judgement and thus place too heavy a burden on Management. He thought some language should be added referring to the need to reduce programmes in cases where persistent and severe problems of dialogue between Management and countries existed.

497. In connection with the concern expressed by the representative of France that all countries might be eligible for reward on the basis of performance, he said that the assessment of performance made by Management would of course have to be relative.

498. With regard to the disadvantages created by geographic location, he pointed out that they would already be reflected in a country's level of poverty.

499. He agreed that over-all performance was difficult to measure in objective terms, but felt that Management should nevertheless be given a little more specific guidance on the subject.

500. He saw no need to establish a separate country category for policy-based lending within the separate envelope for that type of lending.

501. The **REPRESENTATIVE of DENMARK** said that sight should not be lost of the distinction between Categories A and B.

502. He agreed with the representative of the United Kingdom that there was no need to isolate PBL outside the separate PBL envelope.

503. In his view, access to SPA should be regarded as a sufficient but not a necessary condition for access to ADF resources.

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504. The **REPRESENTATIVE of CANADA** asked whether there were in fact countries without access to SPA which would be eligible for ADF.

505. The **CO-ORDINATOR** replied that there were.

506. The **REPRESENTATIVE of NORWAY** said he agreed that the establishment of a separate category for PBL was useful.

507. The performance criteria proposed in paragraph 3 were also useful. They adhered closely to the IDA criteria, and that was desirable.

508. The **CO-ORDINATOR** observed that the United States representative might submit a revised draft of the note on allocation among eligible countries, taking into account the comments made by Deputies.

509. The **REPRESENTATIVE of the UNITED STATES of AMERICA** said that he would try to do so.

510. The **CO-ORDINATOR** suggested that the question of environmental concerns should now be taken up.

511. The **REPRESENTATIVE of the UNITED STATES of AMERICA** said that he very strongly supported the Fund's intention to increase its emphasis on environmental concerns. Specific language must be built into the replenishment agreement itself to encourage the initiatives already underway and to enhance the activities of the Fund in at important area. There should be express provision to assure that environmental impact assessments were completed for all projects that would have a "significant" effect on the environment and that copies of these assessments were provided to members of the Board at least 120 days in advance of Board action.

512. Public participation was an essential element of the environmental impact assessment process. Agreement language should call for specific steps to see that local community groups and non-governmental organizations had full opportunity to participate in the assessment process and were given access to the assessment documents. Copies of environmental impact assessments should be available to the public.

513. U.S. law required, with effect from December 19, 1991, that the U.S. should not support any loans that would have significant effect on the environment unless an environmental impact assessment had been completed and copies of the assessment made available to the Board at least 120 days in advance of Board action. It would therefore be very difficult to justify authorization or appropriation requests to the U.S. Congress for U.S. participation in the replenishment until such a system was in place and functioning effectively.

514. There was international unanimity on the urgent need to provide greater protection for tropical forest resources. Agreement language should specify the need for prompt action by the Fund to assure that the forest projects it financed placed increased emphasis on conservation of forest areas and protection of biological diversity, including institution-building programs. The language should also provide that agricultural and land use policies and other relevant national strategies of borrowing countries be formulated so as to be compatible with sound management of forest resources.

515. There was also international consensus on the need for reform and strengthening of the Tropical Forestry Action Plan (TFAP), so as to build broader support for implementation of policies and programs to provide greater protection for tropical forests. Agreement language should encourage the Fund to become more active in the TFAP process and to use its influence in helping to achieve that reform and strengthening it.

516. He would encourage the Fund to move aggressively to expand its programmess in energy conservation, ensure efficiency, and renewable energy. Agreement language should ask for expansion of professional staff with expertise in those specific areas and for higher priority for those areas in least-cost planning.

517. Language should encourage and promote those areas in energy sector lending and in development of specific energy loans, including provision for technical assistance. It should also call for convening of seminars for staff and Board members on the possibilities in those areas and alternative energy investment opportunities.

518. In appraising energy loans, the Fund should be asked to compare demand reduction cost to the cost of proposals for additional generating capacity and to include environmental costs in its economic analysis of proposed projects that might have significant environmental impacts.

519. The African Development Fund continued to be very seriously under-staffed in the environmental area. Progress on the reforms he had just described clearly could not be achieved unless immediate steps were taken to increase the number of environmental experts on the permanent staff. Agreement language should call on the Fund to begin immediate recruitment efforts and to make budgetary provision for hiring ten new staff members in that area by June 30, 1991, and to increase that number to fifteen by December 31, 1991.

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520. The **REPRESENTATIVE of the UNITED STATES of AMERICA** agreed that clearly defined criteria were necessary for the percentages to be respected. His delegation would spare no efforts to find an acceptable formula.

521. The **COORDINATOR** hoped that the compromise formula could be integrated into the text under consideration. It had previously been agreed to modify the description of the second factor, and it remained to settle the question of geographical criterion, on which agreement was yet to be reached. Other points would have to be clarified also if it appeared that the text could serve as a basis for negotiation.

522. He drew attention to the text of the statement made during the morning sitting by the United States representative on the subject of the environment which had just been distributed to the delegations, and proposed a short break to read the document.

The sitting was suspended at 6 p.m. and resumed at 6.15 p.m.

523. The **COORDINATOR** said he had distributed the text of the agreement reached on the environment under the negotiations for the ninth replenishment of IDA resources, which might facilitate discussion of the item, and he invited the participants to comment on the points raised by the United States delegation.

524. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** recalled that there was a long discussion on the environment during the negotiations for the ninth replenishment of IDA resources, subsequent to which a consensus emerged which, essentially, took account of the concerns voiced by the United States, chiefly on the necessity to ensure greater transparency for all environment-related issues, including those of the World Bank's activities. On the other hand, it was essential to bear in mind the need to safeguard the

confidential character of relations between the Management of the ADB and the ADF and the governments of the beneficiary countries. At any rate, the adopted solution, even if it was not similar to that of the IDA, should reconcile the two elements.

525. The **REPRESENTATIVE of NORWAY** observed that the United States statement contained several specific proposals which were difficult to evaluate. The important thing was to determine which of them appeared realisable, given the capacity of the countries concerned and the procedures of the Board. Certain proposals, on the other hand, might prove to be immediately inapplicable. It would be advisable for Management to indicate its position on the matter.

526. The **REPRESENTATIVE of FRANCE** thought, like the representative of Norway, that some of the proposals put forward were not realistic within the context of ADB. Generally, France shared the concerns expressed on the environment, but considered that every new activity in the domain should be carried out, if necessary, through staff redeployment, without additional recruitment.

527. The **REPRESENTATIVE of BRAZIL** said although the importance of environment-related issues were generally accepted, some of the United States delegation's proposals raised doubts. It was proposed, for example, that local community groups and the NGOs should participate fully in the environmental impact assessment process. Such participation was certainly necessary, but one might ask if suitable NGOs existed in all the countries, or if there was not a danger of intervention by external pressure groups which were not familiar with the conditions of a given region.

528. Regarding the protection of tropical forests, which was the aim of the United States proposal and to which Brazil attached, for obvious reasons, great importance, one could likewise wonder if it was right to put emphasis on a matter affecting only a part of Africa, whereas several countries did not have tropical forests, but rather Savana zones, or semi-desert regions, which should equally be protected.

529. Regarding the 10 or 15 environmental experts who, according to the United States delegation, should be recruited by ADB to handle activities in that area, the Brazilian delegation associated itself with the position of the French delegation, and wished to know on what basis the United States delegation reached that figure.

530. The **COORDINATOR** recalled that Brazil was associated with the consensus reached on the matter under IDA, and explained that the plan of action for the protection of tropical forests mentioned in the United States proposal was aimed at not only humid forests, but also dry forests, even if the latter did not contain the same biological diversity as the humid forests.

531. The **REPRESENTATIVE of the UNITED STATES of AMERICA**, in response to the Brazilian delegation's question, explained that the figure of 5 or 10 environmental experts deemed necessary to enable ADB to carry out its desired role regarding the environment, had been calculated by the United States Treasury Department on the basis of the number of transactions between the World Bank and the Inter-American Development Bank and the beneficiary countries, on the one hand, and the number of transactions projected between ADF and the governments of African countries, on the other hand.

532. He explained, regarding the French delegation's observations on staff redeployment, that it was not a question of redeploying the existing staff, but rather of recruiting additional staff, especially if one considered that there would be 175 vacant positions in ADB at the end of 1990. The United States Government was prepared to support, in the 1991 Budget, the necessary appropriation for the recruitment of 15 environmental experts. The dates on which those experts should be recruited should be carefully studied, given the United States legislation about the deadlines for the presentation of the environmental impact assessment of the envisaged activities before their eventual approval.

533. The **REPRESENTATIVE of CANADA**, in a preliminary statement, said that her delegation was agreeable to including in the agreement on the operations of ADF strict rules on environmental protection. It should be borne in mind, however, that the United States delegation's proposals were based on considerations imposed by American legislation which, strictly speaking, was applicable only to the United States itself. She was certain, though, that the Fund should ensure that its projects took due account of the necessity to protect the environment, in the same way as activities undertaken in the industrialised countries.

534. As for staffing, her delegation supported the recruitment of additional staff, because redeployment of the existing staff, as suggested by the French delegation, would be inadequate.

535. Mr. KARIISA stated that Management, mindful of the need to ensure an ecologically rational execution of projects, had already taken steps to put in place the requisite infrastructure to that end, and had asked a consulting firm to carry out a study that would provide sectoral guidelines for environmental impact assessment of Bank supported activities.

536. Concerning forests, the ADB was organizing in cooperation with the World Bank and the International Union for the Conservation of Nature (IUCN), a conference on the protection of tropical forests in November 1990, in which Central and West African countries would take part.

537. In the field of energy, the ADB was committed to preparing in collaboration with the World Bank and the UNDP, a general policy document, and was already working on some of the aspects mentioned in the United States proposal, like energy conservation and the rationalization of projects from the viewpoint of energy efficiency.

538. All the ongoing and planned activities should be integrated into the process already set in motion and, as the Bank had not yet finalized its study of the general framework for environmental policy, and since the needs in the sector could not yet be defined with precision, it seemed premature to recruit additional staff at the present stage.

539. Generally speaking, the text of the agreement reached under IDA was acceptable, subject to amendments being made to reflect the specific position of the Bank. In that connection, the participation of NGOs in environmental appraisals was bound to create various difficulties, because it would be necessary not only to identify local competent NGOs, but also to put in place the internal procedures to preserve the confidential character of relations between ADB and the beneficiary countries.

540. He concluded by indicating that the outlines of the United States proposal were acceptable.

541. The **REPRESENTATIVE OF FRANCE** made it clear that her delegation meant by redeployment that there would be no additional staff recruitment in relation to the authorized staff strength for 1990. Recruitment could obviously be envisaged if the requisite staff skills were not available.

542. The **COORDINATOR** wished to know if the participants considered acceptable the inclusion in that part of the report dealing with the environment a text that had been adopted by IDA.

543. The **REPRESENTATIVE** of the **UNITED STATES** of **AMERICA** confirmed that the inclusion in the report of a formula based on an agreement reached under IDA would be acceptable to his delegation.

544. Referring to the French representative's observation, he pointed out that redeployment of the existing staff was likely to reduce the number of economists in the Bank and who would be very necessary if the environmental experts were recruited. Modification of the 1991 Budget should be envisaged in order to provide - which the United States would appreciate - for the recruitment of the 15 environmental experts.

545. The **COORDINATOR** observed that the elements emerging from the discussions on the environment were now sufficient to be able to draft that part of the report dealing with the subject, even if certain opinions put forward at the present stage were still preliminary and the delegates would subsequently revert to the item.

546. The outstanding questions were the sectoral objectives, TAF, and access to TAF by the different country categories. Regarding sectoral allocations, he suggested that discussion should centre exclusively on agriculture and the social sectors, without reference to allocations for the other sectors. The participants had previously expressed their views on the social sectors during the broad discussions on poverty alleviation. As for agriculture, he recalled that during the Abidjan meeting certain delegations had criticized Management's proposal to treat differently the objectives to be set for agriculture, but that was a matter on which Management should receive indications from participants on staffing implications.

547. The **REPRESENTATIVE** of **SPAIN**, stressing that country programming should constitute the principal framework for lending operations, felt that emphasis should be laid on the need to give priority to the agricultural sector in the policy dialogue with the governments and the EPCPs. The solution might lie in fixing objectives in terms of indicative ranges, it being understood that they should not fall below the lower limits set by the said ranges. That lower limit should be put at 35% for agriculture and 25% for the social sectors.

548. The **COORDINATOR** observed that the possibility of defining the ranges of objectives had already been mentioned; he thought that the figure of 35% seemed too high for agriculture.

549. The **REPRESENTATIVE** of the **NETHERLANDS** recalled that during the Abidjan Meeting, his delegation did stress the importance to be accorded to agriculture if the development of Africa were to be encouraged, and the priority to be accorded sectoral allocations, which Management undertook to respect. His delegation considered that agriculture ought to be allocated 40% and that the allocation to the transport sector changed to 20%, that is a decrease relative to the proceeding period, in favour of the social sectors, and in particular primary health care and primary education. The overall allocation of 20% to the public utility services and communications sectors would remain unchanged.

550. The **REPRESENTATIVE OF THE UNITED KINGDOM** reiterated the observation which he made during the Abidjan meeting that rigid objectives would complicate the task of the Bank Management. What had emerged from the discussion was that the country programming process should be strengthened and that loans should be tied to the performance criteria. Fixing pre-determined objectives would introduce a host of additional complications and render Management's task virtually impossible. His delegation considered that, without necessarily specifying figures, the agricultural sector should be accorded the highest priority, and that given the importance of the measures for poverty alleviation, environmental protection, and encouraging the integration of women in development, a greater emphasis than in the past should be placed on the social sectors.

551. The **REPRESENTATIVE of DENMARK** said that, from a bureaucrat's point of view, it was always nice to have fixed objectives that could be monitored. That was perhaps why Deputies had stressed in the past the idea of fixing firm targets in various sectors but as the U.K. delegate had just pointed out, the discussions in the Development Committee and even at the current negotiations had tended to shift the focus from individual sectors to the multisectoral. Much emphasis had been put on poverty alleviation and the agricultural as well as social sectors might be deemed to be more attractive from poverty alleviation point of view than modern export crop projects in the agricultural sector. The Deputies were therefore required to be more flexible than in the past and lump the agriculture and social sectors together and allocate about 60% of resources since they were more oriented towards poverty alleviation. There would be no need making further breakdowns as that would create problems for the Fund Management which was dealing with about 35 different countries at the same time.

552. The **REPRESENTATIVE of FINLAND** endorsed the point made by her Danish colleague and added that the rigid percentage allocations were not really what Deputies should emphasize during these negotiations. Poverty- -alleviation- type of activities could be incorporated into all Fund financed projects in various sectors. Situations in member countries varied and due account was taken of that fact in the lending programmes.

553. The **REPRESENTATIVE of SWITZERLAND** believed that the agricultural sector should remain a very high priority area within the framework of country programming. A reduction in its share of resources would send wrong signals in the context of structural adjustment programmes. Agricultural Sector projects should focus primarily on productivity. Furthermore, adequate measures should be taken to overcome the problems encountered by the Bank in the preparation of agricultural projects.

554. The **REPRESENTATIVE of AUSTRIA** shared the view that poverty alleviation being the main focus, it was necessary to give more priority to certain sectors. Even the agricultural sector should be further broken down because agricultural sector projects in general included both the less labour-intensive projects as well as those providing additional employment facilities for the unemployed. May be the Management could make that breakdown for target fixing or policy orientation.

555. As far as education was concerned, the Fund should be encouraged to focus attention on countries where enrolment figures were low and to promote education projects in urban and less densely populated areas. The same should apply to other social services.

556. The **CO-ORDINATOR** pointed out that the two sectors were not proxies for tackling poverty because, a University for example, could be put under the social sector while a support to estate farms could go into agriculture. As far as definitions were concerned, Deputies were supposed to make reference to those established by Bank Group Policy documents.

557. The **REPRESENTATIVE of SWEDEN** believed that the country programmes should, to a large extent, guide the allocations to the various sectors. He would therefore associate himself with the view expressed by the Danish delegate on the subject.

558. The **REPRESENTATIVE of FRANCE**, talking about sectoral priorities, agreed that all projects should be oriented to poverty alleviation but felt that sectoral priorities should serve as an overall guide to resource allocation. As such, France's preference would be to maintain the

priority that had been given to rural development under ADF-V. Account should also be taken of the importance of agriculture. The French delegate wanted the allocation to the social sector to be increased to 25% because the discussions held that morning were essentially in connection with basic education, primary health care and population control which were extremely relevant to poverty alleviation. Concluding, she stressed that Management should ensure in future that disbursements were made much more regularly and on time.

559. The **CO-ORDINATOR** observed that disbursement delays were more frequent in the agricultural sector in view of the very nature of the sector itself. He informed delegates that, before that meeting, Management was working on the disbursement profiles on various types of loans but that it had not been possible to conclude the exercise for that meeting because of other pressing issues. It could, however, be concluded for subsequent meetings if Deputies so desired.

560. The **REPRESENTATIVE of NORWAY** observed that the aim of Deputies was to identify various instruments to ascertain that Management was respecting the established priorities. As most delegates had already pointed out, country programming should be strengthened and used as the basis for determining sectoral priorities. The experience in the agricultural sector just showed that indicators were required for monitoring purposes and to ensure that Management carried out what it undertook to do.

561. As pointed out by the Co-ordinator, there were two different approaches but which he believed, could be reconciled. It was possible to use the approach recommended the U.K. delegate as a new introduction and at the same time make reference to views expressed by most delegates that resource allocation figures should not be considered as absolute. However, for the purpose of establishing priorities, he felt that there was still need to have figures by way of indicating those priorities. Furthermore, as suggested by the Austrian delegate, ranges could be indicated instead of specific figures. Some Deputies attached a lot of importance to the agricultural and social sectors and that could be expressed somehow, but in a way that it could be monitored. In addition to that, Deputies should formulate a language concerning the other priorities that cut across those sectors such as poverty alleviation, women in development and environment.

562. The **REPRESENTATIVE of CANADA** agreed with the approach recommended by her Norwegian colleague concerning a flexible country programming. She recalled that the Canadian delegation was among those who had said at the Abidjan meeting that they did not want

to get into an auction approach to sectoral allocation. However, it was necessary for Deputies to agree on the priorities and she had a notional figure down in her briefing note which were similar to the percentages recommended by the French delegate namely, 40% for agriculture and 25% for the social sector. She was quite prepared to have that interpreted as an absolute priority to agriculture with emphasis on areas that had been dealt with under poverty alleviation strategies such as rural productivity and food security. The social sector would then come in second position including primary health care and basic education as well as assistance to areas of interest to children.

563. She would also emphasize the need to put in place under the ADF, a good statistical base so that State participants could have an idea about Fund's orientations. She recalled that Deputies decided to allocate 75% of health sector resources to primary health care under ADF-V. The report submitted at the Abidjan meeting indicated that the target reached in that area was barely 22% while the footnote to the document under consideration indicated an up-dated figure of 81%. She would want clarifications on those figures. There was obviously a statistical and reporting problem there and that went further to stress the need to ensure a good statistical reporting system within the Bank and Fund.

564. The **CO-ORDINATOR** observed that when one tried to achieve poverty alleviation through the sectoral approach, the income generation side of poverty reduction as expressed in the Human Resources Development Report, was often to be seen as essentially indirect. That was to say that the achievements in terms of productivity of the poor might not arise from direct investments in a particular sector; so much as by correction of the macro-economic and sectoral distortions which had biased things very heavily against peasant producers in the past. One might therefore achieve much more in terms of poverty reduction through indirect action that could not be categorized under the sectoral heading.

565. The **REPRESENTATIVE of ITALY** said that particular attention should be given to the agricultural sector and that Italy did not approve the proposed reduction in its allocation from 40% to 30% as proposed by Management. An allocation ranging from 15% to 20% to the social sector could be acceptable.

D/ES

566. The **CO-ORDINATOR**, in his summary, observed that there was general agreement that country programming was to be the point of departure in the future. Secondly, it had been agreed that agriculture and the social sectors should be the top priority sectors to be dealt with in the country programming process and policy dialogue with borrowing member countries. Thirdly, he believed that it would be accepted that a formula should be considered which would indicate that the bulk of activities under ADF-VI which were sectorally attributable, should be devoted to agriculture and the social sectors. Deputies should also consider the suggestion that Management consider how best to formulate indicative ranges for the various sectors. He would suggest an allocation of 40% to agriculture and not less than 25% for the social services. He was still not clear about the allocations to the other sectors but suggested that the issue be left open for the time being and asked Management to submit proposals.

567. In response to a point raised by the Danish Delegate, he recalled that it had already been agreed that within each sector, particular attention would be paid to actions that would have direct impact on poverty alleviation other intersectoral objectives to be set by State participants under ADF-VI.

The meeting was adjourned at 7.15 p.m.

D/ES

DATE AND PLACE OF THE NEXT MEETING

568. The **CO-ORDINATOR** suggested that two further sessions should be held, the first in November and the second in December 1990.

569. The **REPRESENTATIVE of ITALY** proposed that the first session should be held at Rome on November 8 - 10.

It was so decided

570. The **REPRESENTATIVE of PORTUGAL** said she would inquire of her authorities if the second session could be held at Lisbon on December 10 - 12.

OTHER BUSINESS : PERSONNEL ISSUES

571. The CO-ORDINATOR invited consideration of the question of staffing and the staff redeployment plan.

572. Mr. NORRIS (ADB), reporting on the implementation of the redeployment plan, said that a second status report had been submitted to the Board of Directors in August 1990. The report noted that a job classification plan had been approved in May 1990 and that job classifications and salary ranges were now being revised in accordance with it. A staff appeals mechanism had been implemented and a proposed performance evaluation system was under consideration and would be presented to the Board in the new future. In the interest of greater effectiveness, the organization's operational Departments had been reorganized into a North and South Region.

573. By the end of August a total of 157 staff had been redeployed. An early retirement plan had been implemented involving 45 staff and the contracts of 10 staff members had been terminated, so that by the end of August a total of 55 staff members had left the organization. The process of recruiting new staff had been initiated; 13,700 CVs had so far been received and were now under evaluation. In addition, pilot programmes for the three areas (operations, translation and human resources) had been instituted.

574. There were at present 135 vacant positions, of which 72 were professional. Of the 72 professional posts, 12 were in the young professionals programme.

575. In summary, much had been accomplished and work was continuing on what remained to be done, particularly the pilot programmes.

576. The impact of the new programmes to be undertaken was now under consideration. In that connection, he would point out that staff growth over the past five years had been a relatively modest 5.4 per cent.

577. It was recognized that there was a need to improve project quality, and steps had been instituted to ensure that 80 per cent of projects were to be field-supervised each year, and that project completion reports were to be submitted within six months. The ratio of the economists and country officers remained a problem; more qualified economists and loan officers were needed for the country programmes.

578. Turning to the major programming directions, he said it was recognized that the preparation of adequate country lending strategies, backed up by sectoral programmes, was essential to the success of the country programmes. A sizeable increase in the number of qualified economists and loan officers assigned to country programmes was under consideration.

579. The greater emphasis being placed on the social sector due to poverty alleviation meant that there would be an increased need for social scientists.

580. With respect to women in development, changes in staffing would be proposed to meet the needs, including a shifting of posts from UNDP to Bank staff.

581. In the area of population, it was recognized that there would probably be a need to increase the number of qualified demographers among Bank staff.

582. The Bank had three experts working in the environmental area, one a Bank staff member and two technical assistants. It was now in the process of defining the further staff needs in that area, but he could not at present commit himself to the figure of 15 experts.

583. In all the areas he had referred to, Management realized that there was a need for more staff as well as for sensitizing all staff to the importance of those areas through internal training programmes.

584. Management was aware that improvement was needed in its recruiting procedures, primarily in the direction of decentralizing recruitment decisions and rationalization of the recruitment process.

585. It must be recognized that the needed staffing changes had to be carried out in the context of the Bank's overall programmes and priorities.

586. **VICE-PRESIDENT LOUNES** said that the main elements of Management's staffing strategy were firstly to meet the need for sufficient staff and secondly to structure the staff so as to meet the Bank's operational needs.

587. Management also intended to establish a continuous redeployment mechanism. As a result of its activities to date, it had already begun to see encouraging results.

588. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** asked what remained to be done in the area of redeployment, and within what time frame.

589. Mr. **NORRIS** said that the major proposals for improving staff performance to which deadlines had been attached were completed. In going through that exercise, however, Management had realized that the process was an ongoing one which must be integrated into its normal operations. One specific area remaining to be completed were the pilot programmes he had referred to earlier.

590. The **REPRESNTATIVE of CANADA** said she was glad to see that Management now regarded redeployment as a continuing process.

591. She was at present considering the submission of a broader proposal aimed at reversing the African brain drain, increasing the hiring of non-regional staff and expanding the young professionals programme. She would welcome comments on those ideas.

592. The **CO-ORDINATOR** asked Management to respond to the observations made by the Canadian delegate and to establish a link between the 13,000 applications received so far and the Bank's skill requirements.

593. Mr.**NORRIS** said the job applications submitted covered a wide variety of skills; he estimated that 10 to 12 per cent of them would best meet the Bank's needs.

594. The ideas put forward by the Canadian representative were certainly of interest to Management. With respect to the brain drain, it had been encouraged to note the increasing number of applications being received from Africans working outside the continent. That was enough evidence of the growing reputation of the African Development Bank.

595. The **REPRESENTATIVE of the UNITED KINGDOM** commented that the smallness of staff growth in the last five years might reflect overstaffing in 1986.

596. He was disappointed at the delay in implementing the pilot programme, and felt it was important that it should be implemented without further delay.

597. It was his impression that considerable scope still remained for further redeployment.

598. He asked for information on the regional balance of the 13,000 applications that had been received. In his view, there was scope for improvement in that area also.

599. The **COORDINATOR** recalled having heard that a good proportion of the 13,000 candidates came from non-regional countries.

600. He then highlighted the importance of having an adequate number of country loan officers and economists. He called on Mr. Norris to provide any other indications on additional staff redeployments.

601. Mr. **NORRIS** (ADB) stated that the redeployment exercise had been carried out in a thorough manner, with the objective of redeploying certain staff members to positions where their capacities would be better utilized. The exercise affected 157 persons. It was worth noting that the process was a continuing one but in the future it would not attain the same scope as on the first occasion.

602. In view of the programming needs voiced during the discussions, additional staff would have to be recruited. All the needs could not be met exclusively by redeployment because the Bank did not have the full complement of all the requisite skills. Other specific redeployment activities would be presented in 1991 to the Board of Directors, especially the classification of certain posts. But the scope of the second exercise would be limited.

603. The **REPRESENTATIVE of the UNITED STATES of AMERICA** appreciated the progress so far made in the matter. He endorsed his German colleague's request for a time-frame for redeployment activity. It would be equally useful to know what actions would be taken between now and the year end, and the elements affecting ADF-VI.

604. It was important to know the scope and ramifications of the exercise, hence his wish to have the requisite information for the next meeting. Recruitment procedures should be streamlined for filling vacant posts. It was a vital question inasmuch as it would be virtually impossible to implement all the programmes mentioned if the staffing situation were not redressed as promptly as possible.

T/ST

605. The **REPRESENTATIVE of FRANCE** said she had taken note of the different actions to be taken on staffing. Her delegation supported the Federal Republic of Germany's request for the submission of a time-frame of work to be done.

606. Her delegation would like to have a general staff policy document of the Bank. It would be useful for the future to have a document recapitulating the actions taken and providing the elements of pluri-annual programming in the light of the new priorities. It would be interesting to see how the Bank would comply with those priorities within the framework of the existing staff positions and those to be created.

607. The **REPRESENTATIVE of the UNITED KINGDOM** stressed the importance of strengthening country programming through the EPCPs.

608. He had noted Mr. Norris's statement on the need for additional staff; but sight should not be lost of the present 135 vacant posts which represented more than 10% of staff strength. Consequently, it was desirable to reorientate the current recruitment campaign towards the requisite skills so as to implement the new priorities. An organizational adjustment would also be necessary, especially in such sectors as country programming. Therefore, he supported the French delegation's request for the preparation of a staff policy document, with emphasis on the reorientation of the existing recruitment programme.

609. The **REPRESENTATIVE of the UNITED STATES of AMERICA**, referring to the issue of 135 vacant posts, endorsed the comments of the United Kingdom representative. There was no question that the staff recruitment procedures of the Institution needed to be reoriented, otherwise the programme could not be implemented effectively. He also supported the request of the French delegation for a staff policy document.

610. The **REPRESENTATIVE of JAPAN** endorsed his colleagues' demand for the preparation of a staff policy for the Institution. The Bank Group should be run on an extremely sound financial basis; he was convinced that there would be a staffing impact on the resources of the Institution, an aspect which Management should take into account when drawing up the said policy document.

611. The **COORDINATOR**, summarizing the preliminary discussions, noted the convergence of views on the item. All the delegations had stressed the importance of operationalising the new policies.

T/ST

612. Many encouraging measures had been taken on the issue of staffing implications. Management would prepare a document on it for the next meeting. Given the short time lag between the present meeting and the next one, he apologised in advance to the delegates if the document should arrive late. Given the vital importance of the matter, Management should be given ample time to treat it correctly.

613. He requested the delegates to be prepared for discussion, after suspension, of the question of access to TAF. They would thereafter revert to the problem of performance in the light of overnight reflections, before considering a series of financial questions.

The sitting was suspended at 10 40 a.m. and resumed at 11 a.m

TECHNICAL ASSISTANCE FUND (TAF) (continued)

614. The COORDINATOR recalled that two distinct points of view had emerged during the discussion of TAF. The Spanish delegation had clearly stated that Category 'C' countries should not have access to TAF resources whereas the Canadian delegation considered that they should.

615. The question of Namibia was left in abeyance.

616. He called on the delegates to comment on the possibility of Category 'C' countries benefitting from TAF resources.

617. The REPRESENTATIVE of BELGIUM recalled his statement in Abidjan, rejecting the proposal to utilize part of the contribution to TAF as subsidies.

618. Regarding TAF allocations, he was prepared to allow certain special cases such as Nigeria and Namibia to have access to TAF resources. At the same time, it would be reasonable for Category 'C' countries also to have access to TAF for financing environmental studies, for example, with a view to identifying projects in important sectors. Such resources would obviously be refundable.

619. The REPRESENTATIVE of the NETHERLANDS fully shared his Belgian colleague's views.

T/ST

620. The **REPRESENTATIVE of CANADA** sought clarifications on the lending conditions of TAF resources under ADF-V. She had thought that those resource were provided to Category 'C' countries on a reimbursable basis and to those in Categories 'A' and 'B' in form of grants.

621. Her country preferred that the TAF resources should be given in form of grants; that was why even if it was not the appropriate forum, for such matters, she wished to know if there were provisions under ADB for the grant of technical assistance resources to Category 'C' countries.

622. Mr. **MWAMUFIYA (ADB)** replied in the negative to Canada's question. Such a technical assistance mechanism did not exist under ADB. On the basis of the net income, certain sums were allocated to some research institutions but the mechanism was not similar to the TAF.

623. As to the modalities of TAF, the conditions were similar to those which existed under the technical assistance account of ADF-IV, namely, when a country borrowed resources to carry out project-related studies, it would to repay the amount borrowed if the study resulted in a financed project; the loan was then subject to a ten-year grace period and a repayment period of 40 years. In the opposite case, there was a grace period of 45 years and a repayment period of 5 years together with full interest rate subsidy. Under ADF-V, those conditions were applicable to Category 'C' countries only.

624. The **REPRERSENTATIVE of FRANCE** preferred the arrangements made under ADF-V for TAF, namely, that the funds should be aimed really at assisting the borrower countries in project preparation and execution. A substantial part, 80%, should be used strictly for project preparation. Such orientation would ensure better coordination between the preparation of projects and their implementation.

625. Her country attached considerable importance to the problem of disbursements and was concerned by their slow rate. If TAF resources were focussed on project-preparation-related studies, Management would perhaps be able to tackle the problem of late disbursements relative to Fund commitment.

626. The French delegation subscribed to the views of the delegations of Belgium and the Netherlands on the issue of access by Category 'C' countries to TAF.

T/ST

627. The **REPRESENTATIVE OF JAPAN** also thought that TAF ought not be extended to Category 'C' countries as grants. That rule was valid for Namibia.

628. He supported the French proposal on the utilization of TAF. His country preferred also that the TAF resources be basically utilized for project preparation and implementation.

629. The **REPRESENTATIVE of SWITZERLAND** was prepared to accept for the ADF-VI period the renewal of the arrangements which were adopted for ADF-V after long negotiations.

630. He thought that the modalities should be reviewed and softened for Category 'C' countries. It appeared to him that the existing system was rather complex.

631. A less rigid allocation system should be put in place. He did not wish to dwell on details about country allocations but felt that the Fund should be able to support multinational projects because regional and sub-regional cooperation deserved serious attention.

632. He supported the French proposal and asked Management if it was possible to have a break-down of projects executed with the TAF resources and their respective costs.

633. Mr. SARR (ADB) recalled that the majority of TAF projects were intended to finance studies for the preparation of projects. The idea of devoting 80% of TAF resources to project preparation was not incompatible with Management's objectives. Except that it should reflect the new priorities laid down by the different delegations, namely, environmental protection, project quality improvement and accelerated disbursements.

634. Those elements thus broadened the scope of the utilization of TAF for the total amounts, and Management would prepare the tables for the next meeting.

635. The **COORDINATOR** explained that a question had been asked about tables showing the number of past operations and their respective costs linked to projects. But if those tables were not available at the present time, they could be handed to the delegates later.

T/ST

636. The second question dealt with the part of TAF granted for regional integration projects.

637. Mr. **MWAMUFIYA** (ADB) responded that under the ADF-V lending policy, 10% of the total amount allocated to technical assistance was granted to regional institutions for institutional support and integration in accordance with Article 6 (2) of the TAF policies.

638. The **REPRESENTATIVE of the UNITED STATES of AMERICA** was in favour of maintaining 10%; he also supported the Canadian suggestion to put in place a separate technical assistance fund under the ADB window.

639. He insisted on the need to allocate TAF resources particularly to Category 'A' countries; a small part of those resources could also go to Category 'B' countries, but none to Category 'C' countries. The resources should be utilized only for project preparation, follow-up and appraisal.

640. His delegation did not support the idea of utilizing those resources for strengthening institutional capacities. But it was gratified by the emphasis placed on poverty alleviation and the environment. His country would like all the studies carried out under TAF to be submitted to Executive Directors in the official working languages of the institution two weeks before Board meeting. That was a common practice. It was an additional measure which would make it possible to better appreciate the content of TAF.

641. The modalities for the loans under technical assistance were tantamount to grants since they were granted on very concessional terms. The American delegation therefore felt that Category 'C' countries should not benefit from TAF resources.

642. He had no objection to the French proposal of 80%, but would like to know clarification if poverty alleviation activities and environmental preservation efforts would be financed from the remaining 20% or from the 80%.

643. The **REPRESENTATIVE of DENMARK** said his delegation would be happy to maintain the status quo of ADF-V under ADF-VI. As regards access by Category 'C' countries to TAF, it seemed to him that the decision was not a financial decision but rather a political gesture taken under ADF-V to show that the regional member countries should have access, even if a small one, to TAF resources.

T/ST

T/ST

644. Given the fact that the amount was really small (0.3% of the total volume of the replenishment), his delegation associated itself with those who considered that Category 'C' countries should also benefit from TAF resources.

645. The **REPRESENTATIVE of SPAIN** was of the same position as Japan and the United States of America, namely, that Category 'C' countries should not benefit from TAF resources because the conditions were too concessional; they were virtually grants.

646. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** reminded all the participants that there existed an agreement, in principle, on the handling of the issue. In all the aid programmes, and certainly in those of the Japanese, the funds were provided in form of grants, especially if they were meant to finance such sectors as the environment or social components.

647. The **REPRESENTATIVE of BELGIUM** associated himself with the maintenance of the status quo of ADF-V. He requested, however, that a part of the funds be reimbursable. That was a budgetary necessity.

648. The **CO-ORDINATOR** wished to know if the Belgian delegation's position might affect the country's attitude to the replenishment of resources of ADF, and if the status quo could be maintained.

649. The **REPRESENTATIVE of BELGIUM**, referring to paragraph 5(e) of the resolution concerning the Fifth Replenishment of ADF, which required funds disbursed under technical assistance to be on a reimbursable basis, recalled that that provision was precisely aimed at reflecting the concerns expressed by Belgium and Japan on the matter. The formula should be retained, otherwise Belgium's contribution might be affected.

650. The **REPRESENTATIVE of JAPAN** also recalled that during the negotiations of the Fifth Replenishment of ADF, the Japanese delegation had drawn attention to Article 19 of the ADF Agreement, which stipulated that technical assistance "will normally be on a reimbursable basis", hence provision of assistance would be contrary to the terms of that Article. Relatively high income countries should not receive any assistance in form of grants.

T/ST

651. The **CO-ORDINATOR** observed that it was the view of majority of participants that the arrangements which were adopted for ADF-V be renewed for the period covered by ADF-VI, with opinion diverging on the subject of access to TAF by Category C countries and the reimbursement modalities to be met, where necessary, by the Category C countries benefitting from TAF.

652. Unless there was any objection, he would propose that the consensus among the participants was to retain the existing arrangements, with the understanding of considering again at the next meeting the issue of access and that of the conditions of access by the Category C countries to the Technical Assistance Fund.

It was so decided.

ALLOCATIONS AMONG ELIGIBLE COUNTRIES (ADF-VI/CM.2/90/12) (continued)

653. The **REPRESENTATIVE of the UNITED STATES of AMERICA** stated that, for his country, one of the basic conditions which should govern the Fund activities during the ADF-VI period was that resources should be allocated principally according to the performance criteria. The bulk of the resources should go to countries which had created a suitable climate for Fund operations.

654. For the definition of performance criteria, it was essential to fix a "threshold" which would make it possible to determine if the countries concerned had initiated the necessary reform efforts.

655. The United States delegation had not been able to finalize a proposal on the matter since the document under discussion was distributed, but Management could perhaps consult with IDA in Washington to find out the procedures followed by that institution, and then present a document on the matter to the participants at their next meeting in Rome.

656. The **REPRESENTATIVE of FRANCE** said her delegation was impressed by the United States delegation's arguments on the need to ensure the maximum efficacy of ADF operations. She also attached importance to African countries making utmost efforts towards adjustment as well as durable and sound growth.

657. One should not go too far, though. On the one hand, only some twenty Sub-Saharan countries of Africa out of 29 had embarked on adjustment programmes. Whereas those

programmes were extremely constraining, a new conditionality should not be added to that already being applied by the IMF and the World Bank. On the other hand, the concessional resources provided by ADF were similar to those of IDA, and it did not seem that criteria as exacting as those advocated in the United States proposal had ever been imposed under IDA.

658. The French delegation considered that document ADF-VI/CM.2/90/12 represented a satisfactory compromise which it could support.

659. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** thought that the respective positions of the delegations of the United States and France had each its own merits. In that connection, efforts should be made to marry the necessity to highlight in the report of the meeting the importance which the Deputies attached to the performance criteria, with that of providing the necessary flexibility to the Management of ADB and ADF to safeguard the basic programmes, which were indispensable to the beneficiary countries.

660. His delegation considered that on the issue of performance, ADF should not demand more than IDA, but it wished to recall that the current meeting was a donors meeting, and that its report should be submitted to the Board and approved by the Board as a whole. Thus, convincing arguments must be found, and the document presented by the Co-ordinator was a step in the right direction.

661. The **REPRESENTATIVE of the UNITED KINGDOM** supported the observations made by the delegations of France and the Federal Republic of Germany. Regarding performance criteria, it would without doubt be a good thing to refer to the discussion documents and the agreement reached under IDA. The United States delegation had underscored the necessity for criteria, both transparent and mutually acceptable internationally, but such criteria were non-existent and his delegation feared that the United States proposal would lead nowhere. Perhaps more flexibility should be applied and the quest for a universally applicable methodology abandoned.

662. During the next meeting in Rome, the participants would perhaps be well-advised to focus their attention on the practical application of the performance criteria. The document under consideration (ADF-VI/CM.2/90/12) provided for a system of linking allocation to performance criteria; it remained to be defined how the system could be implemented under ADF, eventually within the context of the role assigned to the Board and Executive Directors or the project consideration process.

T/ST

663. The **REPRESENTATIVE of the NETHERLANDS** agreed that it was a major problem to define performance criteria. Even though he did not think that the operations of ADB were comparable to those of IDA in all respects, as a compromise one could envisage a linkage with IDA and World Bank programmes, even if that linkage was not as rigorous as desired by the United States.

664. The document under discussion constituted already an acceptable compromise, and one might perhaps add, under the caption "sound economic management", a reference to country efforts under the IMF and World Bank adjustment programmes.

665. The **REPRESENTATIVE of the FEDERAL REPUBLIC of GERMANY** supported the suggestions of the delegations of the United States and the United Kingdom respectively that Management should consult IDA on its procedures for judging country performance and to draw inspiration from the two technical notes prepared by IDA on the subject. Management could then present to the Rome Meeting a document embodying suggestions on the practical application of the system of linking allocations to country performance.

666. The **REPRESENTATIVE of CANADA** observed that the discussions, which clearly showed the complexity of the matter, reflected the general desire of the Participants to put in place an allocation process linked to performance. The important thing would be to ensure that ADF could deal in a clear way with the countries; the Canadian delegation consequently supported the suggestion that Management should present a document on the internal procedures for the practical implementation of the process.

667. The **REPRESENTATIVE OF DENMARK**, while recognizing the difficulty in defining performance criteria, underscored the need to adopt a formula which would be neither rigid nor have the effect of penalizing countries which, though had not undertaken adjustment programmes, for example, could not be regarded as "non-performing".

668. The **REPRESENTATIVE of SWITZERLAND** considered that the useful suggestions just made deserved reflection, and that it was very important for the document which Management would prepare for the Rome Meeting to focus on the practical aspects of the proposed system.

669. The **CO-ORDINATOR** noted that no consensus had emerged to enable an acceptable text to be drafted on the system of allocation. The discussion of the item would continue during the Rome meeting on the basis of the document which Management would prepare, taking into consideration consultations which it had been directed to make with IDA and the observations made during the discussion of the practical application of a system linked to performance.

670. The **REPRESENTATIVE** of the **UNITED STATES of AMERICA*** stated that his country regarded as the most important element, if loan quality were to be improved, the reform of the ADF allocation system, which should be geared further towards economic performance and poverty allocation efforts.

671. Progress had been made in the implementation of reforms agreed upon during the Fifth Replenishment of resources, but it was important that reforms should become management tools and be integrated into Fund operations to improve loan quality.

672. For example, all the delegations were agreed that programming decisions should be based on EPCPs. Projects that were not directly related to those studies should not be considered by the Board. Besides, the loan consideration process should be strengthened and streamlined, and only after a project had been found to fit in with the general policy framework of the beneficiary country should it be incorporated into the process.

673. Furthermore, there should be instituted a procedure whereby any project judged technically unacceptable would be referred back to the Loans Committee by the Board if two Executive Directors expressed reservations on it. In that connection, increased use should be made of TAF for project preparation and review.

674. Finally, given the large number of projects to be considered, the Board of Directors of the Fund and that of the Bank should hold separate meetings, at least twice per month, to examine projects and all other relevant issues that might arise.

675. The United States delegation would like Management to present to the next meeting a document containing a detailed description of project preparation and consideration procedures so that the participants could understand better the strengths of the process and the areas for improvement.

676. The **REPRESENTATIVE** of **ITALY** generally supported the views of the United States representative. Discussions on the matter should be continued within the context of the document which Management would present to the next meeting on the practical aspects of an allocation system based on performance.

* The full text of this statement was distributed under reference ADF-VI/CM.2/90/15.

677. The **REPRESENTATIVE** of the **NETHERLANDS** also supported the general orientation of the statement of the representative of the United States. The idea of separating the Boards of Directors of ADB and ADF, in particular, deserved further consideration.

678. Moreover, the participants unanimously recognized that the EPCP system should play a central role during the period covered by the Sixth Replenishment; it would become a better system of ensuring correlation between the operations of ADF and those of ADB. If the EPCPs were to play their role to the fullest, they should be reviewed and adjusted more frequently, perhaps even on an annual basis.

679. The **REPRESENTATIVE** of **SWITZERLAND** felt that the United States delegation's observations were unquestionably in the right direction and should be examined carefully. The suggested modifications to the EPCP system should be studied with prudence. It took three years to put the "first generation" of EPCPs in place, and one might wonder what time it would take to carry out the suggested amendments.

680. The **CO-ORDINATOR**, recognizing that the system was passing through a transition stage, stressed that the participants wished essentially to know if it was possible to render the EPCP system operational from the beginning of the period covered by the Sixth Replenishment.

681. The **REPRESENTATIVE** of **CANADA** thanked the United States delegation for presenting the list of concerns which tallied closely with those of her delegation. The suggestions made, dealing with the mid-term review of ADF operations and ADB, attempted to define the operational criteria which should govern the activities of ADF during the period covered by the sixth replenishment of resources. The proposals raised a large number of new questions and should be discussed in greater detail at the next meeting.

682. The **REPRESENTATIVE** of **JAPAN** said his delegation could support the suggestions made by the representative of the United States with a view to improving the quality of the operations of the Bank, particularly the one that the Board should meet two times per month. All those suggestions should be considered carefully.

683. The **CO-ORDINATOR** pointed out that the periodicity of Board meetings was perhaps outside the competence of the State Participants. One should refer to the Rules of Procedure of the Board for guidance on the matter.

T/ST

684. The **REPRESENTATIVE of FRANCE** supported the suggestions of the delegation of the United States. Country programming should play a major role in loan policy and, in that respect, greater emphasis should be put on the EPCP system.

685. Mr. **MERGHOUB (ADB)** thanked the United States delegation for its suggestions which entailed no difficulty for Management since all the measures were reflected in the Operations Manual which was published in 1989 and was constantly updated in order to improve project preparation and execution.

686. The need to improve the quality of programmes financed was stressed, but that was precisely the aim of EPCPs, even if the "first generation" of EPCPs were more descriptive and less operational than they were today. The EPCP system was the cornerstone of the co-operation strategy at the country level, because its primary objective was to make a critical analysis of the macro-economic performance of the country, to evaluate government plans for the future and to formulate the Bank Group strategy to assist governments in such sectors as policy reforms, investments or institutional strengthening.

687. The reports drawn up after that study were discussed with the governments at a high level in order to reach agreement on the overall analysis, the strategy proposed, the total volume of assistance that could be provided over a period of three years and the priorities of government and ADB which did not always coincide. Reconciliation of plans of action and agreement on an overall three year assistance programme are achieved during this review.

688. The whole process is carried out in concert with other partners in the donors community once specific projects and programmes are defined. Staff is guided in its overall institutional planning by the directives of the Deputies and the Board of Directors on the use of ADF resources.

689. In view of the above, it would seem unrealistic to attempt to modify the EPCPs each year. Being a considerably costly process, and given the existing staffing constraints, the EPCPs could not be updated more frequently than every two or three years. As is the practice at the World Bank, the Fund however updates twice a year its evaluation of the country macro-economic performance and reviews progress of its country strategy once a year.

690. A procedure existed for identifying and retaining projects in the official pipeline of projects approved by the Co-ordination Committees of the Fund. The Co-ordination Committees decision is guided by EPCPs framework and specific operational criteria related to country strategy and the project itself.

T/ST

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691. On the other hand, the suggestion that the Board should refer back to the Loans Committee projects which two Executive Directors deemed unacceptable would create some problems. Such a measure would intervene at an advanced stage of the project consideration process, after long discussions would have been held with the concerned country, and was likely to impair the credibility of ADB and the experts who participated in preparing the projects. It was worth mentioning, in that respect, that an "advance warning" system existed concerning projects being processed and Management is open if asked to discuss as early as possible in the project cycle with Board members the technical aspects of projects.

692. In sum, therefore, one could say that the means of resolving the problems raised already existed, without the need to modify the procedures being presently applied. Nevertheless, the issue of staffing remained a major problem for Management: the Bank's staff resources ought to be strengthened if coverage were to be enlarged and project quality improved.

693. The question of the periodicity of the meetings of the Board of Directors has wide ranging implications and should, if needed, be considered more appropriately by other better qualified forum.

964. The **REPRESENTATIVE of the UNITED STATES of AMERICA** appreciated the explanations given by Management and suggested that those clarifications be put in writing and submitted to Deputies for consideration.

695. The **CO-ORDINATOR** observed that the consensus was that the issues were important and that Management was paying particular attention to them. Some of them including staffing, were being addressed progressively. A document would be prepared as suggested by delegates.

966. As regards financial issues, particularly the administrative costs sharing, he recalled that Deputies started discussions on them in Abidjan but that some clarifications were still required from Management. The other issue which needed further discussion was the Bank Group's liquidity policy. Management had already submitted the relevant document to the Board of Directors and since the proposal made would have an impact on ADF-VI, he felt that his colleagues should express their views and observations thereon.

FINANCIAL ISSUES

697. The **REPRESENTATIVE** of the **UNITED KINGDOM** felt that the administrative cost-sharing formula could be improved. As regards liquidity, he pointed out that Deputies had not had sufficient time to study the document in detail to determine whether the assumptions made therein on a substantial increase in liquidity were based on higher scenarios. Meanwhile, it would be helpful for Management to indicate with precision the basis of the assumptions made. Besides, he wanted justification for maintaining the Fund Unit of Account (FUA) given that the ADB used the Bank Unit of Account (BUA) which was equivalent to the SDR.

698. Mr. **BUCKNOR** (ADB) replying to the question on the assumptions used in the paper on liquidity, explained that all the paper was trying to do was to establish a link between the liquidity required to meet projected disbursement and expenditures such that the Fund would not make losses. Management had thus estimated disbursements, on the basis of which encashments would be carried out. Since Management would still be funding disbursements from notes deposited under previous replenishments, the question of the impact of the replenishment scenarios on the liquidity did not really arise. The levels of liquidity projected represented the amount of liquidity which Management felt would enable the Fund to generate sufficient income to avoid losses, based on administrative expenditure projections using the proposed cost-sharing formula.

699. The **REPRESENTATIVE** of **JAPAN**, referring to the cost-sharing formula, said that he wanted a reduction in the Fund's share of the administrative expenses. He wondered whether Management in working out the formula, took into account the difference in volume of the ADB and ADF lending programmes.

700. His country was very concerned about the fact that the net income of the Fund was showing a deficit towards the end of the year. The problem could be tackled through a more comprehensive action and not solely by increasing liquidity. In fact, it was time for Management to review the current service charge in force to see whether it was adequate. Japan would only support a substantial increase in liquidity when such a comprehensive analysis had been done. Any proposal for such increase should be based on projected disbursements.

701. The **CO-ORDINATOR** took note of the previous speaker's suggestion that some weighting should be given to the respective volumes of lending of both the ADB and ADF in calculating their shares in the administrative expenses. As regards the liquidity issue, he pointed out that liquidity proposals were normally made on the basis of disbursement projections.

702. The **RERESENTATIVE** of **DENMARK** recalled that State Participants had indicated their opposition during ADF-V negotiations to making draw-downs for investment purposes and even pointed out that it was not consistent with the relevant provisions of the Agreement establishing the African Development Fund. It was clear from the document that Management was envisaging a sole solution to the issue of the administrative cost-sharing formula. He felt that such a view was not correct and as suggested by the Japanese delegate, there was need to review other possibilities and options. He would not recommend an increase in the service charge viewing the economic situation of regional member countries but the possibility of making drawdowns on the accumulated net income on a temporary basis until the increased volume of lending started generating higher income from service charges should be explored.

703. As regards the cost-sharing formula, the proposal made by the Japanese delegate on the possibility of giving weightings to the volumes of Bank and Fund lendings as well as their respective number of loans in calculating the shares of the two institutions in the administrative expenses was very appropriate.

704. The **REPRESENTATIVE** of **the NETHERLANDS** observed that the reduction in the Fund's investment income during the first half of 1990 needed further explanation by Management, given that liquidity dropped by only 15% while the investment income fell by 54%. Furthermore, he wanted additional information on the expected investment income for the remaining 1990 period.

705. He drew attention to page 5 of the document and observed that exchange rates had an impact on the Fund's commitment capacity. He reiterated the view he had expressed the previous day on the need to consider seriously the encashment procedure to protect the commitment capacity against the adverse effects of exchange rate movements.

706. The **REPRESENTATIVE** of **CANADA** pointed out that Management had given clear indications in the document on the adverse effects of the current liquidity policy. She, however, endorsed some of the views expressed by previous speakers. One area that needed to be reviewed was the cost-sharing arrangements so that the Fund's share could be reduced below the 40% range. In that context, the proposals made by the delegates from Japan and Denmark were worth considering.

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707. She would also like Deputies to consider the implications of increasing the service commission from 0.75% to 1% and invited Management to express its opinion on that issue. Besides, she the endorsed the suggestion made by the UK delegate that Management justify the continuous use of the FUA for accounting purposes. She drew attention to the fact that the BUA should be carefully considered as there were merits in chosing a single Unit of Account for both the Bank and Fund.

708. The **REPRESENTATIVE** of the **FEDERAL REPUBLIC** of **GERMANY** supported the views expressed, particularly that of his Danish colleague on drawdowns and accumulated net income. He recalled that a suggestion was made at the previous Annual Meetings to set aside UA 50 million from the accumulated net income for the Emergency Fund.

709. The **REPRESENTATIVE** of **NORWAY** supported those who had proposed a reduction of the Fund's share in the Bank Group's administrative expenses.

710. He noted that the arguments put forward by Management in its document were aimed at obtaining from the Deputies, some flexibility on the size of the Fund's liquidity. It would not however, be appropriate for the Fund's share of the Administrative costs to be financed out of State Participants' contributions but rather out of the Fund's net income. If therefore a certain level of liquidity was required to generate that income, appropriate provision should be made within the scope of available resources.

711. Furthermore, he recalled that during the previous IDA negotiations, some effort was made for certain countries to pay their contributions in cash. That had been the practice under the ADF for a number of years. What Management was requesting now was payment in promissory notes because of the need to maintained the prescribed liquidity level which has caused a loss by the Fund. He believed that there were strong arguments in favour of the flexibility authorization sought by Management.

712. The **REPRESENTATIVE** of **ITALY** wanted the cost-sharing formula to be reviewed for the reduction of the Fund's participation in administrative expenses.

713. He informed his colleagues that he had received communication from his authorities in Rome suggesting to the Deputies to change the dates for the third consultative meeting to 7, 8 and 9 November 1990.

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714. The **REPRESENTATIVE of the UNITED STATES of AMERICA** was of the view that the Fund's share of the Bank Group's administrative expenses was too high. It was not clear from the document whether Management had taken account of the number and size of operations carried out by the Bank and Fund in determining the administrative costs borne by each of them. In that context, she would like to know how the TAF operations were weighted because she believed that those were comparatively less expensive to prepare and implement.

715. She believed that the liquidity level should be determined objectively to ensure that enough income would be generated to cover administrative expenses. Therefore, once the Deputies agreed on the cost-sharing determination formula, the liquidity levels could be adjusted accordingly.

716. The **CO-ORDINATOR** explained that, from experience, technical assistance operations were more costly than normal lending operations.

717. Mr. **BUCKNOR (ADB)**, replying to questions raised, recalled the discussions held by the Boards of Governors at the 1987 Annual Meetings held in Cairo on the cost-sharing formula. He also pointed out that Management had, in the past, submitted documents containing proposals on the issue. In the process, many approaches were studied which made it possible for Management to establish that there was no direct and clearly identifiable relationship between the size of a loan and the cost involved in preparing that loan. In fact, a point was made that, given the nature of ADF countries and the obvious technical problems encountered in project preparation, ADF projects were more expensive to prepare and administer than ADB projects. A more reliable indicator was the number of projects under preparation and supervision at a given time.

718. On the suggestion that the Fund's service charges should be increased, Mr. Bucknor explained that a close study of the components of the Fund's net income showed that loan income was substantially lower than the investment income. Taking 1989 as the reference point, the average income earned from interest and service charges for the period 1987 to 1989 was FUA 13.9 million while overall costs amounted to FUA 51.7 million. It would therefore be necessary to substantially increase the service charge if it were to have any appreciable impact on the Fund's revenues.

719. The relationship between the accumulated net income and drawdowns was a straightforward one. The accumulated net income was the excess of income over expenditure which was normally reflected in the Fund's liquidity. The ADF had an accumulated net income of FUA 150 million as at 1989 ending.

720. Responding to the observation that the change in net income as at June 1990 did not match with change in the level of liquidity, he explained that Management had indicated in the June financial figures submitted to the Board of Directors that while liquidity increased in nominal terms during the first half of 1990 from FUA 304 million to FUA 359 million, the average liquidity effectively available was lower because there was an encashment of FUA 135 million at the end of May 1990. That encashment distorted the June figures since that amount was not available for investment during most the quarter. It was also worth mentioning that Management's tight liquidity targets coupled with unpredictable disbursement requests, made it impossible to make long range investments. Available resources had necessarily to be deposited in call accounts which usually pay interest at well below market rates thereby reducing the potential income that could be earned on those funds. That being said, he pointed out that the expected income on investment for the year would amount to about FUA 26.3 million.

721. He explained that the growth of the Fund's expenses should always be judged in light of the growth in the Fund's operations. He added that the revised cost-sharing formula would slow down the growth of Fund expenses during the replenishment period. Using loan approvals less cancellations as an example, loan approvals for the period from 1986 to 1989 increased by about an average rate of 16.5%. The average growth in administrative expenditures for the ADF was 18.2%. Management was projecting within the scope of the revised cost-sharing formula based on a 75% increase scenario, an increase in annual loan approvals less cancellations of 25.1% while estimated administrative expenditures were expected to grow by about 10% per annum. In fact, irrespective of the scenarios, Management was of the view that the revised cost-sharing formula would result in a reduction in the growth rate of the administrative expenditures of the Fund. That was the main objective of Management's proposal in the revised formula while at the same time trying to maintain the central view that projects should be the reference point for determining expenditures and the basis of a more comprehensive cost-sharing formula that would be simple to apply.

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722. The **REPRESENTATIVE of the UNITED KINGDOM** said that he did not quite understand how the 10% increase in administrative cost came about. He wanted to know whether he would be right to assume that it emanated from the application of the revised cost-sharing formula combined with assumed figures for Fund and Bank projects over the period. If that were the case, he wanted to know why, contrary to what Mr. Bucknor had said, the scenarios would have a certain effect on the number of projects in the pipeline over the replenishment period.

723. Mr. **BUCKNOR** said that what he meant when he made reference to the scenarios was that there was only a meek link between the growth in expenditures and the lending scenarios applied. Thus, if a lower scenario was taken, it should be reflected in the cost-sharing formula. There was a link between the loans approved and the scenarios in that a higher scenario would most likely result in a higher number of projects. However, the most likely result of a higher scenario would be a larger average project size. He pointed out that the cost-sharing formula was based primarily on the number of projects approved during a given year, the number of loans being implemented and those fully disbursed and being repaid. The impact of the volume of lending was therefore not directly reflected.

724. The **REPRESENTATIVE of the UNITED KINGDOM** wanted Management to prepare projections based on some alternative scenarios because many of the Deputies had been looking at scenarios I and II rather than scenario IV.

725. The **CO-ORDINATOR** observed that what was required of the Deputies was to ascertain how the proposed formula would work on the basis of Management's document to be subsequently submitted to the Deputies. He however, believed that the problem concerning the growth in administrative expenditure would remain even with the revised formula particularly if it was the wish of the Deputies that the Fund's share should be reduced such that it could be covered by the income.

726. The **REPRESENTATIVE of NORWAY** was of the view that the Deputies were in a difficult situation in the sense that they felt strongly about reducing the Fund's participation in the Bank Group's administrative expenditure and were therefore requesting Management to provide relevant instruments which were not readily available.

727. The **REPRESENTATIVE of DENMARK** stressed the need for an acceptable solution to the problem because if the situation of net losses was allowed to further deteriorate, it could affect the Fund's operations in the long run.

728. The **REPRESENTATIVE OF THE UNITED KINGDOM** said that it would be difficult for him to subscribe to any suggestion aimed at decreasing the Fund's share of the administrative costs at the expenses of the Bank. It should be kept in view that such a decision would affect the Bank's borrowing condition; it might even result in higher interest rates for ADB borrowers. What was required was a simple but efficient formula for determining the respective shares of the two institutions in a very equitable manner.

729. The **CO-ORDINATOR** said that he would suggest to Management to prepare an analysis showing the effect of giving some amount of weighting to the parameter on the overall volumes of projected Bank and Fund operational activities. As regards the liquidity policy, no consensus had yet emerged on the issue. The relevant document had just been received by the Deputies and they needed time to read it thoroughly. He believed that the decision to be taken would have a serious impact on the replenishment volume and the contributions to be paid by individual State Participants.

730. The **REPRESENTATIVE of the UNITED KINGDOM** called upon Management to respond to the question on the Fund Unit of Account.

731. The **GENERAL COUNSEL (ADB)** recalled that when the Fund's Unit of Account was adopted in 1972, the Nixonian dollar was the basic basic monetary unit for international transactions; while the Bank Unit of Account was adopted when the Bretton Woods gold dollar of 1944 was the basic Unit. The latter unit had a gold value of 0.88867088 grammes of fine gold. The Nixonian dollar, on the other hand had a gold value of 0.81851265 grammes of fine gold. The variance was therefore historical in nature. A fairly simple amendment could be made to the definition of the Fund Unit of Account in the Agreement Establishing the African Development Fund. If the State Participants desired such an amendment, the Chairman of the Board of Governors could put it forward and if 3/4 of the State Participants with 75% of the voting powers agreed, a time could be fixed for the amendment to come into force. He advised that it was timely to make the Fund Unit of Account exactly equivalent to the Bank Unit of Account. That would relieve Management of many administrative difficulties currently created by the need to keep the accounts of the two Institutions on the basis of different Units of Account.

732. The **CO-ORDINATOR** thanked the General Counsel for the clarification and expressed the hope that measures would be taken to rectify the situation.

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733. Another important issue that required consideration was the ADF-VI mid-term review which most State Participants felt should be carried out in time and not at the end of the replenishment period as had been the case of ADF-V. Something should be prepared against the next meeting which would become the draft report. Further thought should also be given to the Terms of Reference of the review although some specific things to be done and covered had already been mentioned.

734. The **REPRESENTATIVE of the UNITED STATES of AMERICA** pointed out that the replenishment period was only three years and that the United States would not like to see the mid-term review coming up so late as to interfere with the subsequent replenishment negotiations.

735. The **CO-ORDINATOR** said that a possible solution would be to carry out the review during the 1992 Annual Meetings.

736. As regards the tentative agenda for the Rome meeting, he drew attention to the fact that Deputies had already received the document on the trigger mechanism which had not been considered at that meeting. He would be grateful if delegates could take it home for careful study in preparation for the next meeting. As the Deputies were aware, a decision was to be taken on the issue before the draft resolution could be prepared. Nevertheless, Management could be requested to start preparing the said draft resolution leaving blank spaces for the figures.

737. Furthermore, Deputies should start preparing the draft report at the next meeting. They would also receive a document from Management on resource allocations and the two tables on the maintenance of value to which reference had been made. Management would submit a document on allocation and performance. A note would also be submitted in relation to general procedures which had been discussed that morning following the detailed clarifications of Mr. Merghourb. Other requests had been made which he could not readily recall but a careful study would be carried out by Management to ensure that all necessary documents were made available for the Deputies' consideration.

738. The **REPRESENTATIVE of BELGIUM** said that his observation was in connection with the resolution, trigger mechanism and particularly the commitment authorization of the African Development Fund. The commitment authorization was related to the payment of tranches by State Participants as well as the deposit of notes but there was no clear link in the