AFRICAN DEVELOPMENT FUND

BOARD OF GOVERNORS

EIGHTEENTH ANNUAL MEETING
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REPORT ON THE SIXTH GENERAL REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND (ADF-VI)

AFRICAN DEVELOPMENT FUND

ADF/BG/WP/91/05
30 April, 1991
Original : English

MEMORANDUM

TO : THE BOARD OF GOVERNORS

FROM : THE BOARD OF DIRECTORS

SUBJECT : REPORT ON THE SIXTH GENERAL REPLENISHMENT OF THE FUND

1. Pursuant to the directives of the Board of Governors contained in Resolution F/BG/89/08 authorizing consultations between State Participants on the Sixth General Replenishment of Resources of the African Development Fund, Deputies representing the State Participants held five consultative meetings between June 1990 and February 1991.

2. At the conclusion of the said consultations, the Deputies agreed to set at FUA 2.65 billion the level of operations for the three-year period of the Sixth General Replenishment. Accordingly, the State Participants decided to contribute towards this amount in the proportions stated in Annex I to the Draft Resolution attached to this Memorandum.

3. Other resources, in the form of special contributions, will be made available to the Fund by the State Participants. Todate, the contributions announced total FUA 60.4 million. The list is shown in Annex II to the draft Resolution.

4. The State Participants also made certain recommendations about measures and directives to be followed by the Fund during its operations under the Sixth General Replenishment. The said recommendations are contained in the attached final report of the negotiations.

5. The Board of Directors studied and transmitted the report of the Deputies with recommendation to the Governors to approve the said report and adopt the Draft Resolution by means of the special procedure provided for in Article 3 of the General Regulations of the Fund. The postal vote under the special procedure was declared open until midnight of 6 May 1991.

6. Since the majority required under the Fund Agreement to enable the Resolution to be adopted has not been attained by the deadline set for the postal vote, the Board of Directors therefore recommends to the Board of Governors to proceed to vote on the Draft Resolution in the plenary session.

Attch.

0095h/43-44

AFRICAN DEVELOPMENT FUND

ADF-VI/CM.5/91/54/Rev.6
6 March 1991
ORIGINAL: ENGLISH

REPORT ON THE CONSULTATIVE MEETINGS ON THE SIXTH GENERAL REPLENISHMENT OF THE RESOURCES OF THE AFRICAN DEVELOPMENT BANK

REPORT ON THE CONSULTATIVE MEETINGS ON THE SIXTH GENERAL REPLENISHMENT OF THE RESOURCES OF THE AFRICAN DEVELOPMENT FUND

A. INTRODUCTION

1. At the Sixteenth Annual Meeting of the African Development Fund held in Abuja, Nigeria, in May 1989, the Board of Governors passed Resolution F/BG/89/08 which called upon the President of the Fund, in close consultation with the Board of Directors, to take the necessary steps to determine the possibilities of mobilizing resources required to extend the operations of the Fund into a Sixth Replenishment of Resources; and, also, to organize consultations with donors with a view to obtaining such resources.

2. In response to the Resolution, the Management of the Fund prepared and submitted for the consideration of State Participants "A Proposal for the Sixth Replenishment of Resources" (ADF-VI/CM/90/01) which set out the principal concerns, objectives, and activities of Fund operations during the period of the Sixth Replenishment and the magnitude of resources needed to support the operations. The Proposal was reviewed by State Participants at the First Consultative Meeting held in Abidjan from 1-2 June 1990 and at four subsequent meetings. At the request of State Participants, Management also prepared additional papers which clarified various issues relating to Bank Group operations; these papers were discussed successively at Consultative Meetings held in Washington, D.C. (28-30 September), Rome (7-9 November), Lisbon (12-14 December), and Rome (20-21 February 1991).

3. The Consultative Meetings were held against the background of increasing concern, in Africa as well as in the international community, about the severe and continuing social and economic difficulties afflicting much of the continent and the studies, proposals and declarations undertaken by various bodies to help bring about more favourable conditions in the region. State Participants noted with appreciation the various efforts of the international community to help surmount the economic difficulties of the continent. Among the important inputs which guided the deliberations of the Meetings were studies by regional and international organizations which had set out fairly comprehensively

measures and policies, including those relating to increasing investment rates, that may be adopted by African countries and their development partners to arrest and reverse the declines in income and welfare experienced by many African countries during most of the 1980s. State Particpants were also guided by the recent deliberations and findings of the Mid-Term Reviews of the Bank and the Fund. State Participants also took into account the current crisis in the Gulf and the heavy and unforeseen burdens it is imposing on the fragile economies of low-income Africa.

4. This Report summarizes the conclusions and decisions arrived at during these Meetings. It will serve as a basis to update and complete the Lending Policy which has been applied during ADF-V. For this purpose, Management will submit a revised document to the Board of Directors for approval.

B. COUNTRY ELIGIBILITY AND RESOURCE ALLOCATION

5. State Participants agreed that the poorest countries should continue to be the chief beneficiaries of the Fund. The fundamental criterion of eligibility to receive resources should, therefore, continue to be per capita GNP, as the guideline for grouping member countries into the three traditional categories of A, B and C.

6. Accordingly, 1989 national accounts data should be used to group member countries of the Fund as follows:

Category A - member countries with per capita GNP of US $510 or less.
Category B - member countries with per capita GNP of between US $511 - $ 990.
Category C - member countries with per capita GNP of over US $ 990.

The system of allocation introduced herewith renders unnecessary the previous distinction between sub-categories A.1 and A.2.

7. Countries in Category A and B will be eligible for ADF-VI resources. The upper limit of eligibility will be a per capita GNP of US $990. Category C countries will, therefore, not benefit from ADF-VI resources except in cases of multinational projects involving at least one country of Category A or B or when support is given through technical assistance loans, which shall carry a grant element of 50 per cent.

8. State Participants agreed that up to 10 per cent of ADF-VI resources shall be earmarked for technical assistance activities which, except for resources given to Category C countries, will consist of grant funds. Countries in Category A should be eligible for 85 per cent of this amount, countries in Category B for 12 per cent and countries in Category C for 3 per cent. Up to 22.5 per cent of ADF-VI Replenishment resources and any recommitted reflows would be earmarked for policy-based loans. Eligibility to such loans would be determined by a country's adoption of a monitored adjustment programme such as the Special Programme of Assistance (SPA) for Africa. The balance of ADF-VI resources would be used for traditional specific investment loans. Ninety per cent of resources, net of those earmarked for policy-based loans and technical assistance, would be allocated to Category A countries and the remaining 10 per cent to Category B countries.

9. The classification set out above would create a need to consider special rules for two member countries. For ADF-VI purposes, Nigeria would be classed within Category A instead of, as previously, within Category B. However, in view of its continuing ability to receive ordinary ADB loans, and the serious impact upon resources for other Category A recipients if Nigeria were eligible to receive a share proportionate to its large population, State Participants agreed that Nigeria should be eligible, under the arrangements set out in paragraph 13 below, for an indicative programme equivalent to the largest indicative programme for which any other Category A country is eligible. This arrangement should be re-examined during the proposed Mid-Term Review.

10. By contrast, Namibia, by virtue of its pre-1989 GNP per capita, would normally fall within Category C. In this context, it would in any case be eligible for technical assistance. But State Participants recognized that this classification could not be regarded as firm since Namibia's GNP per capita was still being reviewed by international agencies. Furthermore, State Participants felt that the special transitional problems it faces should be recognized and that, on account of all these factors, as a wholly exceptional arrangement, Namibia should be eligible for Fund resources as if it belonged in Category B. The classification of Namibia should also be re-examined in the proposed Mid-Term Review.

11. The decisions on eligibility reflect the view of the State Participants that the needs of the poorest countries in Africa should be met as far as possible by concessional resources; while those more creditworthy should receive a mix of concessional and ordinary loans. In this context, State Participants requested the competent instances of the Bank to re-examine its policy on lending to the poorest Category A countries, and especially those participating in the Special Programme of Assistance for Africa.

C. ALLOCATION AMONG ELIGIBLE COUNTRIES

12. State Participants considered that the scarce concessional resources represented by ADF-VI must be used as effectively as possible to make a lasting impact upon poverty in Africa. State Participants concluded that resource allocation under ADF-VI should be based to a much greater extent than in the past on performance, as well as take into account need in terms of relative poverty, size of population, and limited creditworthiness. In this context, performance should be broadly defined as:

   i) Sound economic management,

   ii) Efforts to achieve growth with equity; and to reduce poverty and intensify human resource development,

   iii) Efforts to achieve long-term development which is sustainable both in environmental and in other terms.

13. State Participants considered that, as to need, relative poverty should be reflected in the continued differentiation between countries in Category A and in Category B under ADF-VI. Within those categories, Management would apply to the amount available for traditional lending the size of population at a weight of 45 per cent and relative poverty (per capita GNP) at a weight of 55 per cent in order to determine the relative indicative programme for each country within those categories. The allocation for policy-based lending would be administered separately.

14. State Participants agreed that performance should be judged as between differing countries according to a number of specific elements, as, for instance, the following:

   i) Economic Management

   Economic growth, demand management and resource mobilization; the prices and incentive framework, including trade and exchange rate policies and the environment for private investment; the quality of public expenditure programmes, including allocations for priority recurrent spending; the progress, quality and credibility of adjustment programmes (if required) including their adherence to conditions agreed with the Fund and other bilateral and multilateral finance agencies in return for adjustment support; and good fiscal and financial management.

   ii) Growth with Equity and Poverty Reduction

   The quality and sustainability of government policies and programmes in the basic human resources sectors of education (especially primary and informal), health (especially primary health care and nutrition), population (including family planning and child survival) and the attention given to raising the economic position of women and their access both to assets and to education; the development and tracking in each country of appropriate social indicators (e.g. life expectancy, literacy, population growth and income distribution), the extent of macro-economic and sectoral policies and other programmes designed to take account of the problems of the poor (for instance, basic water supply and sanitation), and to improve their incentives and opportunities for income-generating and employment activities; government readiness to safeguard and reshape critical poverty-related spending when undergoing major stabilisation or adjustment, or to target subsidies or other specific remedial programmes upon the poorest in society.

iii) Sustainability

Management of natural resources and assessment of the environmental aspects of sectoral and project activities; awareness of and readiness to pursue environmental issues, including those with longer term implications; efforts for sustained improvement of the human resource base -- more widely than under 14(ii) above -- and to pursue institutional improvement and development over the longer term; the allocation of recurrent resources, including staff, to safeguard the maintenance and efficiency of past or newly completed investments.

15. In order to achieve the resource allocation objectives, State Participants agreed that while all borrowers in good standing should have access to ADF-VI resources, at any time during the replenishment, the bulk of ADF resources would be allocated to countries which meet any of the following criteria:

i) if a country is a performer under a stabilisation or adjustment programme which has international endorsement, including that of the IMF or World Bank; and, in particular, is an active participant under the Special Programme of Assistance for Africa; or

ii) if a country clearly has a good policy framework, and due to its good performance does not need such a stabilisation or adjustment programme.

16. In a country which does not, or ceases to, meet any of the accepted performance criteria, Fund assistance would be confined to a core programme. In this case the country's future allocations would be restricted to the level of a core programme. Such a core programme should not exceed 20 per cent of the relative allocation foreseen for each three-year period to a given country in accordance with paragraph 13, subject to a minimum figure for countries with small programmes.

17. A core programme would comprise Fund operations restricted to activities which can be implemented successfully even in the face of adverse economic circumstances and policies. The programme should be aimed at maintaining a dialogue and laying the basis for future economic progress, including improving human resource capacities, tackling environmental problems and conducting economic research.

18. A country which is successful in making particularly strong performance efforts should be eligible for an enhanced programming, allowing its indicative programme, calculated on its needs assessments according to paragraph 13, to be increased by a maximum of 25 per cent. Conversely, for a country judged to be performing less adequately, the Fund should be able to reduce its indicative programme down by a maximum of 25 per cent. In taking these decisions Management should assess, among other factors, the performance criteria as defined in paragraph 14. Allocations of policy-based lending would be made from year to year on the basis of performance under the SPA. PBL allocations would in no case exceed 50 per cent of planned ADF commitments to any country over the ADF-VI period.

19. Performance under paragraphs 14 and 15 is a matter for annual assessment; and programmes resulting from those judgements should not be regarded as entitlements. State Participants considered that the country programming process must lie at the heart of Fund operations; and that the evolving and enhanced Economic Prospects and Country Programme Papers (EPCPs) should play an increased role in determining country lending strategy in the light of the associated policy dialogue. This country programming process, regularly updated, should consider the use of all three instruments of Fund operations -- technical assistance, traditional investments and, where appropriate, PBL -- in the planned operational programme for the three succeeding years.

20. Management would of course be required to ensure under this system that the total programmed resources, including the TAF and PBL, do not exceed 100 per cent of the total ADF-VI commitment authority. State Participants agreed to review the operation of the system, in the light of experience, in the Mid-Term Review.

21. State Participants agreed that nothing in these allocation arrangements should imply any alteration in present policies towards potential recipient countries which came under sanctions for arrears to the Fund.

D. LENDING INSTRUMENTS

22. The Fund should have the following three instruments of assistance for deployment under ADF-VI:

i) Technical assistance grants and loans, designed primarily to improve the preparation and implementation of other operations (both traditional and policy-based). This assistance should represent a maximum of 10 per cent of Fund resources during the ADF-VI period.

ii) Fast-disbursing policy-based loans, designed to support member countries having monitored adjustment programmes. These loans should represent a maximum of 22.5 per cent of ADF-VI replenishment resources and any recommitted reflows during the ADF-VI period.

iii) Traditional loans for specific investments -- project loans, lines of credit to development banks, sector investment and project or disaster rehabilitiation loans. These traditional loans should continue to represent the great bulk of Fund activity during the ADF-VI period. In this context, the Fund should continue to contribute appropriately to the local cost elements of such investments. It should also give attention to the needs of small and medium scale enterprises.

E. SECTORAL AND INTER-SECTORAL PRIORITIES

23. State Participants welcomed the intention of the Management to work with borrowing member countries to establish poverty reduction as the main aim of Fund development activities. They agreed with Management that this required an overall approach embracing the right policy environment, measures to increase the productivity of the poor, and investments in the social sector, combined, where practicable, with well-targeted safety nets for the poor in countries undergoing adjustment. They placed great importance upon the work, already launched, to prepare and put in place a specific Action Programme for Poverty Alleviation which would take full account of the growing African and international consensus upon what should be done. They encouraged Management to bring such a programme to the Board of Directors as early as practicable in 1991, and to press on with the work separately in hand to identify specific indicators allowing the impact of a country's own efforts, and of the external assistance it received, to be monitored. They noted that parallel work was being carried out by other international institutions (especially the World Bank and the UNDP) and welcomed Management intention to exchange information and experience with those bodies. They also encouraged Fund Management to seek ways of enhancing the role of NGOs in poverty alleviation, within the framework of the Action Programme.

24. State Participants agreed that the attack on poverty could succeed only through an inter-linked and inter-sectoral approach, emphasising elements including:

i) The provision and maintenance of basic, primary and informal education, and especially for women.

ii) The provision and maintenance of basic primary health care (including health education) together with access to clean water.

iii) A comprehensive set of population policies and programmes including family planning, maternal and child health, information and education.

iv) The encouragement of income-generating opportunities for the poor, including women, through both appropriate sectoral and macro-economic policies and direct action, including necessary rural infrastructure, development of formal and informal employment in both towns and countryside, and actions to encourage the production and sale of goods and services normally capable of being provided by the poor.

They stressed that all actions by the Fund should take into account their likely impact upon women. Its operations should also be designed to improve the access of women both to assets and to services.

25. State Participants agreed that poverty reduction issues, including the establishment of nationally defined social goals, where appropriate, should be treated in the policy dialogue with borrowing members and should be discussed in the new and enhanced EPCPs.

26. State Participants underlined the importance of good governance at all levels in supporting equitable and sustainable development. They considered that the Fund could help to strengthen the ability of national and local institutions to operate effectively. To this end, they emphasized the importance of sound management of public expenditure programmes; greater accountability; and the improvement of the legal and regulatory environments to encourage both public and private sector initiatives. Furthermore, the Fund should help broaden popular participation in the development process, and ensure the full utilization of human resources and potential. In particular, they urged that the Fund's poverty alleviation efforts should enhance the productive potential of the poor.

27. State Participants welcomed Fund intentions to increase its emphasis on environmental concerns and, in particular, the proposal for advancing the implementation of the recently adopted Environmental Policy Paper through the preparation of environmental guidelines in the key sectors of lending, the creation of an environmental information base,

participation in environmental assessment studies and project reviews, as well as continued involvement in the development of national environmental action plans. State Participants urged the Fund to put in place as soon as possible an effectively functioning system ensuring the completion of environmental impact assessments for all projects that will have significant effect on the environment and to see that copies of these assessments are provided to the Board of Directors at least 120 days in advance of Board action. Management said it would endeavour to meet this objective as soon as practicable, and, if possible, by December 1991; and would begin early consultations on this matter with other MDBs. State Participants considered that the operational directives now being prepared should require that for any prospective project which has potentially significant environmental consequences, an environmental assessment report should be submitted to the Fund as part of the appraisal process. The preparation of the environmental assessment report would be part of an ongoing process of consultation with affected groups and relevant local NGOs and the completed report would be made available to such groups. This report would also be made available at this stage to the Executive Directors for information. This would be well in advance of their consideration of the project. Management would report to the Executive Directors that it was satisfied that meaningful consultations had in fact occurred as prescribed above and would describe these consultations.

28. State Participants requested the Fund to ensure that the forest projects it finances place increased emphasis on conservation of forest areas and protection of biological diversity, and to promote agricultural and land-use policies and other relevant national strategies of borrowing countries which are compatible with sound management of forest resources. The Fund was also encouraged to support efforts to strengthen the implementation of the Tropical Forestry Action Programme in its individual borrowing countries, so as to build broader support for implementation of policies and programmes to provide greater protection, through prudent management, for tropical forests. State Participants urged the Fund to expand its programmes in energy conservation, end-use efficiency, and renewable energy. State Participants deemed the Fund seriously under-staffed in the field of the environment and urged that the number of such staff be increased significantly to enable the institution effectively to undertake expanded responsibilities in this important area. Management indicated that if the relevant staffing proposals in the draft 1991 Budget were approved, 8 permanent environmental staff or technical assistants would be in place by the

end of that year to deal with the operations of the Fund; subject to the recruitment of individuals of adequate quality. It would also be supplemented by consultants as necessary to meet short-term requirements. This figure would subsequently be enhanced as necessary to deal with the growing expected volume of work, and to respond to the outcome of the 1992 U.N. Conference on Environment and Development. These actions should be seen as consistent with the view that the institution as a whole requires 15 person-years of professionals of adequate quality to carry out this aspect of its work effectively.

29. In the light of the above, State Participants reviewed the policy of allocations to particular sectors of operation that had been pursued in the ADF-V period. It was plain that the future concentration on improved country programming and policy dialogue made the rigid pre-allocation of Fund resources by individual sectors inappropriate. The prominence of the inter-sectoral issues described above would also have the same effect. Nevertheless, agriculture and food production, on the one hand, and the social sectors, on the other, had very clear relevance for poverty reduction and environmental issues; and State Participants welcomed intentions of Management that these should be systematically discussed and their high priority stressed in the dialogue with recipient member countries. As a result, State Participants expected that Fund actions in the ADF-VI period would in practice produce a breakdown rising to 40 per cent for the agricultural sector (as defined in the recent sectoral policy paper), while interventions for the social sector would account for around 20 to 25 per cent of total Fund operations, and that these two together would form the bulk of ADF-VI operations. No indicative figures need be set for other sectors. In the agricultural and social sectors, the Fund should work to ensure that most of its lending activity would directly or indirectly attack poverty, as set out in paragraph 24.

30. In view of its importance for sustainability, poverty reduction and the social sectors, State Participants welcomed the intention of management to prepare and submit to the Board by the end of 1991 a comprehensive paper on the Fund's approach to population policy. They also welcomed the intention to prepare new and amended sectoral policy statements in other areas, especially to reflect Fund thinking on poverty and environmental concerns.

31. Following on the Policy Paper on Women in Development, State Participants requested that the Fund report to the Board of Directors in 1991 on its strategy to implement the policy and plan of action contained therein. This report should include an account of progress on establishing programme objectives, and the implementation of specific guidelines, as well as progress on staffing.

F. POLICY-BASED LENDING

32. State Participants welcomed Management's preliminary account of Fund experience so far with PBL, and looked forward to examining the results of the proposed fuller formal evaluation during the intended Mid-Term Review. They noted with satisfaction that PBL had been deployed within the first Special Programme of Assistance for debt-distressed low-income countries undergoing adjustment in Africa and agreed that in the ADF-VI period this participation shall continue, within the framework of the second SPA. State Participants called on the Fund to continue its PBL deployment in close cooperation with the World Bank and to avoid discontinuities in the timing of its loans with those of other international financial institutions when the loans were jointly prepared. State Participants encouraged the Fund to continue its work with the World Bank and the UNDP on the social dimensions of adjustment, and agreed that future PBL operations shall, whenever appropriate, be directed to the priority sectoral areas of agriculture and the social sectors. Fund PBL operations could thus make a significant impact in helping the relevant countries to overcome their payment and debt problems and to attain sustainable growth with equity. State Participants did not, however, consider it appropriate to use ADF-VI resources directly for debt reduction or debt service reduction operations.

G. TECHNICAL ASSISTANCE

33. State Participants agreed that the priority for the TAF should be operations linked to prospective loans, either through preparation of projects, programmes or sectoral adjustment credits or through assistance to their implementation. An indicative figure of 80 per cent should be adopted for such operations to reflect this priority. The remainder would be drawn on for institution building and other purposes, including technical assistance to carry forward the new policy directives for the Fund in the environmental and other areas.

H. REGIONAL AND SUB-REGIONAL COOPERATION

34. While no particular share of Fund resources would be set aside for regional projects, State Participants urged the Fund to make an increasingly effective contribution, in accordance with Article 2 of the Fund Agreement, to promote greater regional and sub-regional cooperation. Progress in this important area could not only improve the prospects for increased intra-African trade, but also reflect the world-wide movement towards enlarging markets and reducing trade barriers.

I. LOAN QUALITY

35. State Participants underscored the critical importance of improving the quality of the Fund's lending. They recognised that substantial progress had already been made, in that satisfactory internal management systems, procedures and guidelines now exist. These arrangements, however, needed to be fully implemented. The Mid-Term Review of ADF-V had in particular reaffirmed the importance for the Fund of the conclusions reached by the Mid-Term Review Committee of the Board of Governors of the Bank on the Fourth General Capital Increase. State Participants placed particular emphasis on the need for loan proposals to set out clearly their relationship with EPCPs, Sector Policy Papers, and post-evaluation findings; and for accurate, timely, and complete Quarterly Operational Summaries containing information about all projects to be presented to the Board at least three months before such presentation; and for submission to the Board of Directors of project briefs at least three months before project presentation. It is understood that loan proposals in respect of which either of these time periods had not been observed should not be submitted to the Board except on a no-objection basis or in emergency situations as the Board may determine.

36. State Participants welcomed the firm intention of Management to achieve full observance of these conclusions, and also to continue and develop their operational coordination with other donors. There was common recognition that the EPCPs, supplemented by the proposed Annual Country Strategy Reviews which Management had decided to introduce, were central instruments in ensuring quality. State Participants expected that the work programme for further preparation and revision of EPCPs and Sector Policy Papers would be submitted each year to the Board of Directors.

37. State Participants placed particular emphasis on the need for more thorough and timely project development and review. This will involve upgraded analysis and use of country strategy papers and EPCPs as in paragraph 35. It will also mean earlier dissemination of information on projects as they are identified.

38. In order to improve loan quality during the Replenishment period, the following specific actions were agreed:

    i) In respect of EPCPs, a more in-depth sectoral analysis as well as analysis among sectors should be provided; along with justification for proposed sub-sector activities. In its dialogue with the respective recipients, the Fund should seek to focus its resources in those priority sectoral and inter-sectoral areas where it will have most impact.

    ii) Loan supervision should be strengthened once a project has received funding.

    iii) The project appraisal guidelines will be implemented as presented in the Operations Manual; taking into account, in particular, institutional capacity and, where appropriate, the need for adequate and soundly calculated economic and financial rates of return. Where applicable, project cost recovery and counterpart funding provisions should be in place and on-lending rates for sub-loans should in principle be positive in real terms.

39. State Participants felt that the Board of Directors had an important part to play in helping the Management to ensure a systematically high quality of lending. They welcomed the informal arrangements which had already been introduced to allow Executive Directors to communicate in advance with Management on any technical and economic issues in proposed loans. Fund Management assured State Participants that it would continue with and improve on this process.

40. State Participants recognised that the existing Rules of Procedure of the Board of Directors of the Fund permit any one Director to defer consideration of any one item once only for a period of not less than two days. State Participants invited the Board to adopt a rule of practice in respect of this Rule to allow an automatic deferral to the next regularly scheduled Board meeting provided it does not take place within the next four weeks; and also enable two Directors to defer consideration of any loan proposal in respect of which they cite specific reasons of a technical or economic nature, for a period not exceeding three months; provided that the total period of deferral resulting from the use of these two procedures should not exceed three months in respect of any loan proposal. State Participants underlined the authority and responsibility of the Management to bring the

item back to the Board of Directors at any time thereafter, or within the period with the consent of the relevant Directors. State Participants expected that this matter would be addressed by the Board at the same time as this Report. They expressed appreciation of the constructive steps already taken by the Board in this direction; including the proposal to extend the period for circulation of project documents before a Board meeting from 21 to 28 days.

41. State Participants agreed to review progress on these loan quality issues in the course of the intended Mid-Term Review.

J. STAFFING IMPLICATIONS

42. State Participants reviewed the initial staffing implications of the policy and programmatic directions under ADF-VI, based on a document prepared by Management. They recognized that additional staff resources would be needed to meet ADF-VI objectives in the areas of country programming, agriculture (including forestry), poverty alleviation, population, women in development and environment. The priority for new positions, and the rate of their creation, would be decided through the ordinary budget approval mechanisms of the Bank Group. They welcomed Management's intention to meet the additional staff needs, where possible, through a continued redeployment programme and Management's objective of stabilising the number of Bank positions by the end of the ADF-VI period. Recruitment would be undertaken to obtain staff resources not available at present due to the lack of skills within the existing staff complement or creation of new positions. The recruitment would be carried out in accordance with efficient and effective procedures designed to attract qualified candidates from all members of the Bank Group, both regional and non-regional.

K. FINANCIAL POLICY ISSUES

43. State Participants reviewed the documents on the proposed revisions to the formula used to apportion costs between the Bank, the NTF and the Fund, and explored the alternatives for reducing the Fund's projected share of these costs during the ADF-VI replenishment period from the levels recorded under the previous replenishment. State Participants proposed that for the ADF-VI replenishment period, the cost-sharing formula to be applied should be amended to directly take into account the volume of annual commitments of the Fund, as a proportion of total Bank Group commitments. State Participants agreed that in the arrangements to be made with the Bank, the fair value of the Fund's share of Bank Group expenditures during the replenishment period should be computed as the average