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)
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. To date, 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.
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 Participants 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 final 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 rehabilitation 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.
F. POLICY-BASED LENDING

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

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
(i.e., 50 per cent) of the cost-share obtained by applying the existing formula which is based on the number of project loans approved and the number of loans under execution and being repaid, and the cost-share obtained by apportioning expenditures using the same formula, based instead on the volume of project loans approved, and the volume of loans under execution and being repaid.

44. State Participants took note of Management’s explanation of the effect of applying the liquidity policy decided during the ADF-V replenishment. It was decided to increase the Fund’s liquidity level to a maximum of FUA 400 million by the end of June 1992 and to review this matter further during the proposed Mid-Term Review.

45. State Participants agreed that under ADF-VI, the present drawdown system shall be revised in order to strengthen the commitment authority of the Fund. To this effect, the encashment of promissory notes for each successive drawdown instalment shall be pro-rata, in current FUA, to the relative percentage shares assigned to each State Participant in the respective replenishments from which notes are being encashed.

46. State Participants considered that there might be some practical advantages in aligning the Fund Unit of Account with the Bank Unit of Account; and invited Management to examine the issue and present its conclusions to the Board of Directors.

L. MID-TERM REVIEW

47. State Participants agreed there should be a review, in the same form as the replenishment consultations, after the Fund had experience of its first year’s operations under ADF-VI. The timing of this review would depend on when ADF-VI entered into effect, but the aim should be to hold it by September 1992 and, in any case, not later than 18 months after the effectiveness of the replenishment.

48. The review should consider, on the basis of Management reports, the progress made in implementing the decisions set out in this Report, and particularly:

i) The trend of lending and TAF operations of all kinds as between the different country groupings;

ii) The progress made in improving the process of allocation, including the EPCPs and the associated policy dialogue;

iii) The classification of Namibia and the arrangements made for Nigeria;
iv) The progress made on the loan quality issues mentioned in paragraphs 35 to 40;

v) The progress made in defining and implementing the new directions agreed on poverty reduction (including the development and application of indicators), environmental aspects, and the support of women as development agents;

vi) The trend of sectoral lending (particularly for agriculture and the social services) and progress on the intended population policy and updating of other sectoral policy papers;

vii) The trend of policy-based lending and its relationship to the second SPA; this including the results of the formal evaluation and lessons learnt from earlier PBL;

viii) The objectives and results of technical assistance operations;

ix) The effect of the decision on the Fund’s liquidity level;

x) Progress in matching the Fund’s human resources to its tasks under ADF-VI; and

xi) The operation of the arrangements set out in paragraph 40 of this Report.

M. SUBSCRIPTIONS AND OTHER RESOURCES FOR THE ADF-VI PERIOD

49. On conclusion of the consultations initiated in May 1990, State Participants agreed on a Replenishment level of FUNA 2.65 billion for the three-year period 1991-1993, as set out in Annex I to the attached Draft Resolution. The detailed provisions recording the agreement of State Participants and the terms of the Replenishment are set out in the Draft Resolution attached to this Report.

50. State Participants, wishing to enhance further the operations of the Fund, welcomed the special contributions, set out in Annex II to the attached Draft Resolution, pledged by some State Participants in addition to their basic subscriptions. These concessionary resources would enhance the Fund’s efforts to meet the needs of the poorest and most vulnerable groups. These State Participants accordingly requested Management, within the framework of the priorities of this Report, to take account of their wish that these funds be used for additional funding of social sector programmes undertaken by Category A countries which are pursuing adjustment programmes supported by the Bank Group. The special contributions would be administered in accordance with the provisions of the Fund Agreement.

51. Together with the resources foreseen to be subscribed by other present or prospective State Participants and the availability of loan repayments, these arrangements should allow the Fund significantly to increase the real level of its commitments during the replenishment period.
52. After thorough consideration of questions for which provision has to be made in the Resolution, State Participants laid down the terms and conditions for subscriptions in respect of the Sixth General Replenishment of Resources. The following points in particular should be emphasized:

i) the Replenishment will come into effect when the Fund has received instruments of subscription representing an aggregate amount equivalent to at least 40 percent of the subscriptions pledged. It is expected that this level of subscription will be attained by 30 September 1991 or such later date as determined by the Board of Directors (the "Effective Date");

ii) in order to enable the Fund to meet operational commitments before the entry into effect of the Replenishment, the Fund is authorized, when the level of subscriptions received aggregates 20 per cent of total pledges, to use for operational commitment an amount equivalent to the first commitment tranche of each instrument of subscription received before the Effective Date, unless the subscribing State Participant specifies otherwise when depositing its Instrument of Subscription. This advance subscription scheme will be implemented without prejudice to the advance facility scheme, under which any State Participant may authorize the use of any portion of its subscription for commitment purposes before the entry into effect of the Replenishment;

iii) subscriptions may, in exceptional cases, be qualified and State Participants intending to do so will notify the Fund to that effect;

iv) subscription pledges listed in the Annex to the Replenishment Resolution have been determined in Fund Units of Account and have been converted into units of obligation of the individual participants on the basis of daily exchange rates, averaged monthly, for the six-month period ending 31 December 1990. Subscriptions will be denominated in Special Drawing Rights of the IMF (SDRs) or the currency of the individual State Participant, except that if the economy of a State Participant experienced a rate of inflation in excess of 15 per cent in the period 1987-1989, as determined by the Fund, its subscription will be denominated in SDRs or, at the option of such State Participants, in a currency used for the valuation of the SDR, unless that State Participant makes arrangements satisfactory to the Fund which avoid the disadvantages attaching to a subscription denominated in its national currency;

v) subscriptions will not be subject to maintenance of value;

vi) subscriptions will, to the extent of payment, carry voting power in the same manner as under ADF V. However, if the replenishment has not entered into effect by 31 January 1992, advance subscriptions will carry voting power to the extent of payment. State Participants that have not made advance subscriptions will in that event be entitled to exercise pre-emptive rights in respect of advance subscriptions as specified by the Fund.
vii) terms of payment have been determined in such a way as to ensure that the Fund will have the resources it needs to operate in a satisfactory manner and to reflect the multilateral character of the Replenishment. Payment in respect of each subscription will be made in three instalments, of which the first instalment will be made on or before 31 January 1992, with the second and third instalments falling due respectively on or before 31 January 1993 and 31 January 1994. As an exceptional case, where a State Participant cannot, due to its legislative procedures, make payment of the first instalment by the stated date, payment in respect of that instalment should be made within 30 days of the date of deposit of its instrument of subscription. Payment on account of unqualified subscriptions should be made in equal instalments or, at the option of each State Participant, in instalments of ascending magnitude of 29 per cent, 33 per cent, and 38 per cent. Payment on account of Qualified Subscriptions should be made in equal annual instalments.

viii) rules governing the commitment of each of the three subscription tranches have been formulated in such a way that the first tranche will be committed from the Effective Date (or before that date, if it is an advance subscription); the second tranche from 1 January 1992 or the Effective Date, whichever is later; and the third tranche from 1 January 1993 or the Effective Date, whichever is later. Tranches will be automatically available for operational commitment, unless a State Participant that has, when depositing its instrument of subscription, expressed a wish to be consulted, notifies the Fund that commitment of its second, or as the case may be, its third subscription tranche, should be reduced pro rata to the extent to which any qualified subscription of a defined size has not been made available for commitment.

53. Done and approved by Deputies of State Participants at the Fifth Consultative Meeting on the Sixth General Replenishment of the Resources of the Fund, in Rome on 21 February 1991.
FINAL DRAFT RESOLUTION CONCERNING ADDITIONS TO THE RESOURCES OF THE FUND

SIXTH GENERAL REPLENISHMENT
AFRICAN DEVELOPMENT FUND

BOARD OF GOVERNORS

Draft Resolution F/BG/-/-

concerning additions to the resources of the Fund:
Sixth General Replenishment

(Adopted by Postal Ballot on 19. )

THE BOARD OF GOVERNORS,

HAVING REGARD to Articles 2, 4, 7, 16, 19 and 23 of the Agreement Establishing the African Development Fund (the "Agreement").

CONSIDERING the Report of the Board of Directors dated .......... on the implementation of Resolution F/BG/89/08 concerning the addition to the resources of the Fund, and in particular the recommendations of the Board of Directors contained in that Report as a result of discussions authorised by paragraph (b) of the said Resolution;

CONSIDERING FURTHER that the Governments of the State Participants listed in Annex I hereto attached believe that the amounts stated in the said Annex I, together with the terms therein contained and the conditions set forth in this Resolution, form an appropriate basis for recommendations to their respective legislatures; and intend to request, where necessary, their legislatures to approve these arrangements with a view to obtaining authorization to subscribe the amounts indicated in Annex I to this Resolution; it being understood that no final commitment by a State Participant can be made until approval has, where necessary, been obtained from its legislature;

RECOGNISING that the review of the adequacy of the Fund's resources has demonstrated that there is a need to increase such resources in order to meet the development requirements of the poorer and less developed regional members of the African Development Bank (the "Bank");

RECOGNISING FURTHER that the consultations on the Sixth General Replenishment of the Fund's resources (the "Sixth Replenishment") have resulted in a consensus that the level of operations desirable for the three-year period of the Sixth Replenishment justifies a target
replenishment figure of two billion six hundred and fifty million Fund Units of Account (FUA 2,650,000,000); without prejudice to the possibility of further increases through new or additional subscriptions;

NOTING WITH SATISFACTION that the State Participants listed in Annex II to this Resolution have agreed to make available to the Fund other resources in the form of special contributions in the aggregate amount of sixty million four hundred thousand Fund Units of Account (FUA 60,400,000);

CONVINCED that there is need for a portion of the amount of subscriptions made hereunder to be provided to the Fund as advance subscriptions that may be used for operational commitment before the entry into effect of the Sixth Replenishment;

ACCEPTS AND ENDORSES the final report on the Consultative Meetings on the Sixth Replenishment, and therefore;

DECIDES AS FOLLOWS:

1. Increase in the Resources of the Fund

(a) The Fund is authorised to proceed with the Sixth Replenishment for a three-year period commencing from 1 January 1991.

(b) The Fund is authorised to accept, from each of the State Participants listed in Annex I to this Resolution, a subscription in an amount not less than that indicated in the applicable column of Annex I to this Resolution.

(c) The Fund is authorised to accept from each State Participant listed in Annex II to this Resolution other resources in the form of a special contribution in an amount not less than that indicated for each contributing State Participant. Such special contributions shall not carry voting rights but shall otherwise be made on the same payment terms and conditions as those applicable to the subscriptions listed in Annex I hereto.
Nothing in this Resolution shall prevent the Fund, with the approval of the Board of Directors, from accepting subscriptions and other resources in excess of the amounts indicated in Annex I and Annex II hereto.

2. Subscription by State Participants

(a) To make a subscription hereunder, each State Participant shall deposit with the Fund an Instrument of Subscription formally confirming its intention to subscribe an amount not less than the amount specified in Annex I hereto, denominated in terms of the unit of obligation relating to the State Participant in the said Annex.

(b) Except as specified in sub-paragraph (c) of this paragraph, such Instrument of Subscription shall constitute an unqualified commitment by the State Participant depositing it to pay the amount subscribed in the manner, and on the terms, set forth or contemplated by this Resolution. For the purpose of this Resolution, such subscription shall be called an "Unqualified Subscription".

(c) As an exceptional case, where an unqualified commitment cannot be given by a State Participant due to its legislative practice, the Fund may accept from that State Participant an Instrument of Subscription which contains the qualification that payment of all instalments of its subscription, except the first, is subject to subsequent budgetary appropriation. Such Instrument of Subscription shall, however, include an undertaking by the State Participant to exercise its best efforts to seek and obtain such appropriation at the rate specified in paragraphs 4(d) and 8(b) of this Resolution by the payment dates indicated in paragraph 4 hereof, and to notify the Fund as soon as the appropriation relative to each instalment subsequent to the first is obtained. For the purpose of this Resolution, a subscription in this form shall be called a "Qualified Subscription" but shall be deemed to be unqualified to the extent that appropriation has been obtained.

3. Denomination of Subscriptions

State Participants shall denominate their subscriptions in Special Drawing Rights of the International Monetary Fund (SDRs) or the currency of the State Participant, provided that if the economy of a State Participant experienced a rate of inflation in excess of 15 per cent per annum
on average in the period 1987 to 1989, as determined by the Fund, its subscription shall be
denominated in SDRs or, at the option of such State Participant, in a currency used for the
valuation of the SDR, unless that State Participant shall have made arrangements, satisfactory to
the Fund, for avoiding the disadvantages attaching to a subscription denominated in its national
currency.

4. **Payment of Subscriptions**

(a) Payments in respect of each subscription shall be made in three instalments in SDRs,
currencies used for the valuation of the SDR or in freely convertible currencies
acceptable to the Fund. Subject to paragraphs 6 and 8 hereof and unless otherwise
determined by the Board of Directors, the first of such instalments shall be paid on or
before 31 January 1992 or not later than 30 days after the Effective Date, whichever is
later; with the second and third instalments falling due, respectively, not later than 31
January 1993 and 31 January 1994. As an exceptional case, where a State Participant
cannot, due to its legislative procedures, make payment in respect of the first
instalment by the date determined pursuant to the second sentence of this
sub-paragraph, such instalment shall be paid not later than 30 days after the date of
deposit of the relevant Instrument of Subscription.

(b) Payments in respect of a Qualified Subscription shall be made within 30 days as and to
the extent that the relative subscription becomes unqualified; and the provisions
relating to payment dates contained in this paragraph shall be applicable to each such
Qualified Subscription.

(c) The total amount of each Unqualified Subscription shall be payable in three equal
instalments or, at the option of each State Participant, in three instalments of ascending
magnitude, with the first instalment amounting to at least 29 per cent of the
subscription, the second instalment amounting to at least 33 per cent of the
subscription and the third instalment equivalent to the remaining balance.

(d) Payment of each Qualified Subscription shall be made in three equal annual
instalments.
Any State Participant may, by a written declaration to the Fund, indicate that it intends to make payment in fewer instalments or in larger percentage portions not less favourable to the Fund, or at earlier dates, than those specified in sub-paragraphs (a), (b), (c) and (d) above.

Subject to any arrangements made pursuant to the qualification contained in the proviso to paragraph 3 hereof, payments in respect of each subscription shall be made in cash or, at the option of the State Participant making the payment, by the deposit of non-negotiable non-interest-bearing notes or similar obligations of the State Participant, encashable on demand by the Fund at their par value.

No State Participant shall be obliged to make any payment except to the extent that its subscription has become available for operational commitments as specified in paragraph 8 of this Resolution.

5. **Allocation for Technical Assistance**

From the first instalment of all subscriptions made under this Resolution, an aggregate amount up to 10% of the total amount of intended subscriptions listed in Annex I hereto shall be set aside for technical assistance. Such amount shall be used for providing grants for technical assistance, except that, in certain cases, technical assistance shall be provided on a reimbursable basis. Funds set aside under this paragraph for technical assistance but not committed for that purpose shall revert to regular lending operations of the Fund.

6. **Entry into Effect**

The Sixth Replenishment shall come into effect on the date when State Participants shall have deposited with the Fund Instruments of Subscription representing an aggregate amount equivalent to at least 40% of the total intended subscriptions listed in Annex I to this Resolution. This date shall be not later than 30 September 1991, or such later date as the Board of Directors may determine (hereinafter called "the Effective Date").
7. **Advance Subscriptions**

(a) In order to avoid an interruption in the Fund’s ability to make operational commitments pending the effectiveness of the Sixth Replenishment, and if the Fund shall have received Instruments of Subscription from State Participants whose subscriptions aggregate not less than the equivalent of 20% of the total amount of intended subscriptions listed in Annex I to this Resolution, the Fund may deem, prior to the Effective Date, an amount equivalent to the first commitment tranche of each subscription for which an Instrument of Subscription has been deposited by a State Participant as an advance subscription, unless the State Participant specifies otherwise in its Instrument of Subscription.

(b) The terms and conditions applicable to subscriptions under this Resolution shall apply to advance subscriptions, except that in the event that the Sixth Replenishment shall not have become effective by 31 January 1992 the Fund shall specify when advance subscriptions shall be paid by State Participants making advance subscriptions.

(c) In the event that the Sixth Replenishment shall not have become effective by the date referred to in sub-paragraph (b) of this paragraph, voting rights for advance subscriptions shall, to the extent of payment therefor, be allocated to each State Participant making an advance subscription as if it had been made as a subscription under this Resolution, and each State Participant not making an advance subscription shall have the opportunity to exercise its pre-emptive rights with respect to such subscription on such conditions as the Fund shall specify.

(d) Without prejudice to the provisions of the preceding sub-paragraphs, any State Participant may, if it chooses, notify the Fund that its subscription, or a part thereof, shall be regarded as an advance subscription which may be available to the Fund for the purpose of making commitments prior to the attainment of the advance subscription level specified in sub-paragraph (a) of this paragraph. Upon the attainment of the advance subscription level, the provisions set forth in sub-paragraphs (b) and (c) of this paragraph shall be applicable to any amount made available to the Fund pursuant to the provisions hereof.
8. **Commitment Authority.**

(a) For the purpose of operational commitment by the Fund under its operational programme for the period mentioned in paragraph 1 of this Resolution, each Unqualified Subscription shall be divided into three tranches corresponding to the instalments payable under paragraph 4(c), and shall be available for operational commitments as follows:

(i) the first tranche: on the Effective Date, provided that advance subscriptions may become available for operational commitment prior to the Effective Date pursuant to paragraph 7 of this Resolution;

(ii) the second tranche: as from 1 January 1992 or the Effective Date, whichever is later; and

(iii) the third tranche: as from 1 January 1993 or the Effective Date, whichever is later.

(b) Qualified Subscriptions shall become available for operational commitment as and to the extent that each becomes unqualified; which should occur at least at the rate of one-third of its total amount in each of the three years of the Sixth Replenishment.

(c) Any State Participant may authorise the use of the tranches of its subscription for operational commitments on a schedule more favourable to the Fund than that specified in sub-paragraphs (a) and (b) above.

(d) Notwithstanding the foregoing provisions, if a State Participant making a Qualified Subscription and whose subscription represents more than 10% of the total amount of subscriptions listed in Annex I hereto is unable, in any year, to make available for operational commitment purposes an amount equal to one third of its total subscription, that State Participant shall indicate to the Fund the revised amount which will become unqualified and its intention as regards making up the shortfall in the next instalment or instalments. In such event, the Fund shall promptly consult with all other State Participants that have indicated in their Instruments of Subscription the desire to
be consulted upon the occurrence of such event. Each such State Participant may, within 30 days thereafter, notify the Fund in writing that commitment by the Fund of the second or third tranche, whichever is applicable, of such State Participant’s subscription shall be reduced pro rata to the extent to which that tranche of the Qualified Subscription has not become unqualified. The right of a State Participant shall be deemed waived if no written notice is received by the Fund within the aforesaid period.

9. **Consultation**

If, in the course of the Sixth Replenishment, delays in the deposit of Instruments of Subscription, in the release of tranches of subscription for operational commitment pursuant to paragraph 8 hereof or in payment for subscriptions cause or threaten to cause a suspension in the Fund’s lending or technical assistance operations or otherwise to prevent the substantial attainment of the goals of the Sixth Replenishment, the Fund shall convene a meeting of representatives of State Participants to review the situation and consider ways of fulfilling the conditions necessary for the continuation of the Fund’s operations or for the substantial attainment of those goals.

10. **General**

(a) For the purpose of determining its proportionate share of the aggregated votes of the State Participants under Article 29(3) of the Agreement and to the extent that payment has been made, each increase in subscriptions by a State Participant shall be added to the subscriptions made by it under Articles 6 and 7 of the Agreement on the 31st of March, 30th of June, 30th of September and 31st of December of each year beginning with the coming into effect of the Resolution.

(b) Each State Participant accepts the provisions of sub-paragraph (a) herein to the extent that its acceptance is required under Article 29(3) of the Agreement.

(c) For the purposes of Article 27(6)(b) of the Agreement, elections for the Board of Directors shall take place during the annual meeting of the Fund Board of Governors in the year 1992.
(d) The rights and obligations of State Participants making additional subscriptions pursuant to this Resolution, of other State Participants, of the Bank, and of the Fund, in respect of the additional subscriptions provided for in this Resolution shall (except as otherwise provided for in this Resolution) be the same as those which govern the initial subscriptions of original participants made pursuant to Article 6 of the Agreement, save that for the purpose of the valuation of additional subscriptions authorised by this Resolution, paragraphs (1) and (2) of Article 13 of the Agreement are hereby waived and shall not be applicable.

11. Exchange Rates

Subscriptions made under this Resolution, as shown against each State Participant in Annex I, have been determined on the basis of daily exchange rates, averaged monthly, expressed in terms of currency units per SDR as given by the International Monetary Fund, for the six months ending on and including 31 December 1990.
<table>
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<tr>
<th>Participants</th>
<th>Relative Percentage Shares (%)</th>
<th>Equivalent Amount in FFA</th>
<th>Montant Parts relatives en pourcentage (%)</th>
<th>Montant Equivalent en UCF</th>
<th>Unit of Obligation</th>
<th>Exchange Rates</th>
<th>Taux de change</th>
<th>Amount to be Subscribed</th>
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Total 96.094  2,546,496,173

Unallocated/Non souscrit 3.906  103,503,827

(*) Subject to the requirements of Paragraph 3 of the Resolution.

Sous réserve de prescriptions du Paragraphe 3 de la Resolution.
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<th>Participants</th>
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<th>Unit of Obligation</th>
<th>Exchange Rates</th>
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**Total** 60,400,000