

AFRICAN DEVELOPMENT FUND

ADF-VIII/CM.2/IF/98/01



IMPLEMENTING ADF-VII GUIDELINES

ADF-VII Matrix : Implementing ADF-VII Guidelines

ADF-VII Directives	Action to Date
1. OBJECTIVES AND SCOPE OF ADF-VII OPERATIONS	
1.1 Reflect poverty reduction considerations in all activities of the Fund	Please see sections 5.2-5.5 below which provide details of actions taken to date. The thrust of the Bank Group's Poverty Reduction Strategy is the enhancement of capacity for more effective poverty-focused interventions, particularly within the context of Bank Group operations. Poverty reduction focussed operations, increased use of participatory techniques, and increased donor coordination are all elements of the Bank's approach to effectively address poverty.
1.2 Prepare three-year rolling "Indicative Lending Programs" to be submitted annually to the Board of Directors for approval	Lending Programs for 1996 (document ADB/BD/WP/95/142-ADF/BD/WP/95/93), for 1997 (document ADB/BD/97/27-ADF/BD/WP/97/24), and for 1998 (ADB/BD/98/24-ADF/BD/WP/98/19) were prepared and approved by the Boards of Directors. The restructuring of the Bank, non-availability of ADF financing in 1994-95, subsequent decline in ADB lending and concomitant removal of projects from the pipeline due to quality concerns contributed to the reduction of available projects and led to the development of one-year lending programs. Use of TAF to build-up countries' pipeline of projects will contribute to developing three-year rolling lending programs.
2. COUNTRY ELIGIBILITY	
2.1 Strictly enforce Credit Policy in guiding country eligibility	The policy has been strictly adhered to and was reconfirmed in May 1998 when the Board approved the ADB Credit Policy (ADB/BD/98/40-ADF/BD/WP/98/33).
2.2 Prepare guidelines for financing Enclave Projects	The Bank Group Policy Guidelines for Financing Enclave Projects (ADB/BD/WP/96/166/Rev.3) was developed to define the qualifying criteria for the financing of such projects. The policy was approved in April 1998.
2.3 Prepare guidelines for the Blending of Resources	The number of blend countries remains very limited (3), as is the amount of ADF resources available to them. Hence, there has been no need to develop a specific blending policy beyond the credit policy.
3. ALLOCATION OF RESOURCES BY INSTRUMENTS	
At least 70 percent of ADF-VII resources shall be used for project loans with 90-95 percent of these resources allocated to Category A countries and the remaining to Category B countries. Up to 22.5 percent of ADF-VII resources would be earmarked for policy-based operations and up to 7.5 percent for technical assistance activities.	Tables presented in documents prepared for the Mid-Term Review show that the allocation process, in general, was respected. Annex 1 of this matrix provides some details.

<p>4. ALLOCATION CRITERIA AMONG ELIGIBLE COUNTRIES</p>	<p>Tablos presented in documents prepared for the Mid-Term Review show that the allocation process, in general, was respected. Annex 1 of this matrix provides some details.</p>
<p>4.1 Apply to the amount available for lending, the size of population at a weight of 45 percent and relative poverty (per capita GNP) at a weight of 55 percent in order to determine the indicative planning figure for each country</p>	<p>Weights were assigned to five performance indicators (see section 4.3 below) to determine country performance during ADF-VI period. Based on the experience, there were reservations on the continued practice of using weights during the ADF-VII period because of the difficulty of quantifying them adequately for objective comparison across countries. Despite this difficulty, country performance assessment continues to be based on the five criteria approved by the Deputies, by applying a combination of weights, where feasible, complemented by the best judgment of Management.</p>
<p>4.2 Continue to refine appropriate weights to performance indicators with a view to establishing transparent and objective mechanisms for the allocation of resources among performing countries</p>	<p>During a CSP Board seminar held on 14 March 1997, Executive Directors agreed that placing complete reliance on weights for country performance assessment could be difficult and therefore directed Management to find ways of aggregating all the performance indicators in an objective manner. In the course of preparing CSPs, country economists now describe a country's performance in each of the performance areas and individually rate each component. Statistics or indicators are used as part of the performance rating. An overall assessment is then determined. All performance ratings are subject to approval by the Boards. See also section 4.3 directly below.</p>
<p>4.3 Annually assess country performance and submit to the Board of Directors recommendations on performance classification and on possible resulting allocation of resources</p>	<p>Country performance assessment is carried out annually, either through the enhanced CSP presentation or an update of a CSP already approved by the Boards of Directors. Performance is based on objective and transparent analysis, in accordance with five criteria defined broadly as: (i) sound economic management; (ii) growth with equity and poverty reduction; (iii) development sustainability; (iv) sound ADB Group country portfolio performance; and (v) good governance evaluated by the Fund on the basis of respect for human and political rights, rule of law, freedom of information and association and participation in government, as part of the matrix on country performance.</p> <p>A country's performance rating and assistance program, as recommended in the CSP, is subject to the approval of the Board of Directors. During 1996 through the first quarter of 1997, the Board of Directors approved CSPs for 35 countries out of the 39 ADF-only countries; and for the 3 blend countries. No CSPs have been prepared for Angola, Burundi, Comoros, Democratic Republic of Congo, Liberia, Somalia, or Sudan due either to the occurrence of long-term arrears or civil strife. A CSP for Nigeria was prepared but was not discussed since the country decided not to borrow from ADF-VII. Updates of the CSPs will continue to be prepared for the remainder of 1998.</p>
<p>4.4 Report on the experience of the system of performance-based allocation and the adequacy of the ceilings noted</p>	<p>This issue is addressed in the ADF-VIII proposal. Generally, the adequacy of indicative allocation ceilings may require some reconsideration. First, for strong performers, available resources have been exhausted vis-a-vis commitments and situations have arisen where appraised projects could not be presented to the Boards because of the ceilings. Second, the performance-based system is country-oriented and this has caused some problems for the financing of multinational projects. (See section 5.18 for</p>

	details).	Senior Management was informed of country allocations on a monthly basis. However, when there were changes made in the country-by-country allocations (such as when a country's performance was updated), a document showing those changes was distributed to the Board. The distributions occurred in May, October, and December 1997, and February 1998. The Board document indicated the initial, revised, and total amounts allocated for each country.
4.5 Present monthly a table highlighting, for each country, the initial allocation, the revised allocation, the total amounts allocated and the justification for significant changes in the program.		
5. SECTORAL AND INTER-SECTORAL PRIORITIES		
5.1 Report on progress made in defining and implementing the new directions on support to micro-enterprises and the adequacy of the amount allocated to the pilot program		The recruitment of the permanent coordinator has been finalized. In the meantime, the AMINA team now in place has organized a number of activities, as follows: overview presentations of the AMINA program, including proposed interventions and areas of collaboration with ADF Poverty Reduction and other projects having microfinance components have been made with each Country Department; the Bank has affirmed its intention to participate in the second phase of the CGAP initiative; the Bank's contribution to the Microcredit Summit, a non-profit organization devoted to increasing the access of microfinance services to the world's poorest citizens will permit 3 African women microfinance practitioners to attend the Summit meeting to be held in New York City on June 25 - 27, 1998. AMINA has also begun exploratory discussions with bilateral donors (GTZ; USAID; CDF; CIDA) interested in microfinance to harmonize our proposed activities in each of the ten program countries. Lastly, the AMINA budget of UA 15 million has been established in conformity with the AMINA Policy Guidelines approved on September 4, 1997. Subsequently, accounts for the operational expenses of the Unit were opened and is now operating under its own budget.
5.2 Progress in implementing the Poverty Alleviation Strategy and Action Program and in making further advances in the implementation of the operational guidelines		The Bank Group has had a Poverty Reduction Strategy and Action Program in place since 1992, and guidelines to implement the Strategy since 1994. The Program calls for measures to improve country programming and project cycle activities to enhance capacity for more effective poverty-focused interventions, particularly within the context of Bank Group operations. Notably, this includes integrating poverty reduction measures in policy dialogue with RMCs and reflecting poverty-related indicators in CSPs and project documents (Appraisal Reports, PCRs, PPARs, etc). In this regard, the ADB plans to work closely with the World Bank in developing appropriate indicators. The approach also enables the Bank Group to monitor and evaluate its impact on poverty reduction in RMCs. In addition to the above, donor coordination and the increased involvement of NGOs/grassroots or community-level participation are stressed as central to the strategy for poverty reduction.
5.3 Integrate the Fund's poverty alleviation strategy in country policy dialogue and programming through enhanced Country Strategy Papers (CSPs)		The Bank Group has made concerted efforts to incorporate poverty-related considerations into project and country program work. With regard to country programming, the Bank's Enhanced CSPs, as part of the overall evaluation of country socio-economic performance, includes a section which examines "Growth with Equity and Poverty Reduction". Emphasis is placed on government poverty reduction policies, programs, projects or other related activities which either address poverty concerns directly or are designed to mitigate adverse social effects of on-going activities, such as SAPs. During CSP and project identification missions, Bank staff try to sensitize RMCs about the need to develop and implement activities which would have a positive impact on poor and vulnerable groups. It should be noted that cross-cutting expertise has recently started participating in selected CSP missions. Poverty reduction strategies form part of the policy dialogue with RMCs and are integrated in the projects and programs to be financed. Also, as part of the strategy, dialogue and coordination with donors is promoted.

5.4 Pay special attention to building up institutional capacity within the Bank Group and in borrowing countries to design and implement poverty reduction programs	<p>The Bank Group will continue efforts in strengthening its capacity to carry out multi-disciplinary work and analysis within country programming and the project cycle. An important part of this strengthening process includes the staffing of a poverty specialist and two NGO Specialists in the Bank Group's Environment and Sustainable Development Unit (OESU). With this expertise in place, it will be possible to develop a more structured approach for addressing poverty concerns. Efforts are also underway to fill an Institutional Development specialist position in the unit. OESU staff have become more involved in project cycle and country programming work, participating in missions with Country Department staff. This should contribute to providing the necessary skills to integrate poverty concerns and related cross-cutting issues into Bank Group projects, the CSP and the policy dialogue process with RMCs. The Bank Group will also initiate a major training program for staff in 1998, covering all cross-cutting issues.</p> <p>A comprehensive sample of ADF-VII loans made since April 1996 to December 1997, were classified by beneficiary sector. They show that, of 48 projects for which information was provided, 13, 7, and 2 interventions were in Agriculture, Education and Health sectors respectively. The three sectors account for 45 percent of the number of projects approved and 33 percent by loan volume. It is to be noted that interventions in these sectors have high impact on poverty reduction. Evidence also shows that the poor benefit from good macroeconomic policy environment, appropriately targeted poverty reduction projects and improved access to markets through roads (particularly rural and feeder roads). ADF lending to these areas was viewed to be complementarily poverty-reducing; consequently, lending for transport infrastructure, policy-based operations and targeted poverty reduction projects were added to direct lending to agriculture and social sectors. All together, these account for 42 of the 48 (or 87 percent by number of loans) interventions reviewed. A working group is under development that will develop specific indicators to effectively track items (i) and (ii) as indicated to the left.</p>
5.5 Monitor and specify for each project the proportion of lending which meets the criteria of either: (i) the project to include a specific mechanism for reaching the poor, or (ii) the participation of the poor in the project significantly exceeds the proportion of the poor in the population as a whole	<p>Degree of Poverty Focus: It is evident that the project/programs have direct focus on poverty. This is particularly with respect to projects/programs for primary education and basic health as well as construction of rural feeder roads that benefit the poor. The structural adjustment programs financed by the Bank Group also have positive impact on the poor. For example the liberalization of exchange rates improve producer prices, particularly for export commodities.</p> <p>The revision of the Agriculture and Rural Development Policy is nearly complete, and the process included a participatory workshop held with RMCs and international organizations. The policy will be presented to the Boards in October 1998. Similarly, the Education Policy is being updated and major portions of this policy have been completed. It is scheduled for Board presentation in September 1998. Also, Environmental Guidelines have been developed for a number of areas, including the Industrial sector, Industrial and Artisanal Fisheries, Renewable and Non-Renewable Energy, Population/Health and Education, Irrigation, and Crop Production. General guidelines for the Energy policy were completed, taking into account the environmental guidelines already developed. The guidelines delineate the measures needed to promote the development of sustainable energy resources, as well as approaches to minimize pollution and the preservation of national energy assets. Lastly, other policies recently approved include the Bank's policy and guidelines for the financing of Enclave projects, and Policy and Guidelines for the Supplementary Loans of On-going Projects, and Emergency Assistance Guidelines.</p>
5.6 Develop or update, as appropriate, policies for other sectors with environmental implications, including transportation, industry and agriculture	<p>The first phase of the development of this policy was completed in 4th quarter 1997. This phase included a review of existing policies and practices among sister institutions and drawing up the Terms of Reference for the second phase includes the actual creation of said policy. In the meantime, water policy practices of RMCs were also collected. Delays encountered in obtaining funding for further work have temporarily prevented the initiation of the second phase.</p>
5.7 Develop a comprehensive water resources management policy	

5.8 Implement the Bank Group's Policy on Population and integrate related activities into a broad context of development and, in particular, reproductive health. Also re-examine this policy in the light of the resolutions from the 1994 International Conference on Population and Development	<p>The Fund has been instrumental in financing social sector projects and studies that contribute towards the implementation of Bank Group Policy on Population. These projects and studies cover a broad area of development issues which strengthen inter-sectoral linkages with the population policy. In general these project activities aim at increasing: access to information; education (with projects located in Senegal, Guinea, Cape Verde, Burkina Faso and Malawi); skill development (Togo); employment opportunities, both formal and informal; reproductive health services (Mozambique and Sierra Leone), including family planning and sexual health care; and economic empowerment of women (Benin, Chad, and Egypt). In addition to this, the Bank is in the final stages of revising its population policy and guidelines in light of the Cairo population conference. These documents will be finalised and presented to the Boards in the second half of 1998.</p> <p>In line with the implementation of its Environmental Assessment Guidelines (1992), the Bank Group developed more detailed guidelines on Involuntary Displacement and Re-settlement in Development Projects. This document was distributed in May 1995 to assist Bank Group Staff and RMCs in addressing issues related to displacement and resettlement. Since the preparation of the guidelines, the Bank Group has incorporated issues of resettlement into its projects and programs, where applicable. Appropriate mechanisms have been built into projects for the resettlement and compensation of displaced persons, including for loss of crops, farmland and buildings. In many instances, and particularly for Category I projects, which require a full EIA, elements of a resettlement plan are included in the terms of reference for the EIA. Resettlement plans are then included in the project, as appropriate, and can feature in the appraisal report as a loan condition. Prior to project approval, a Borrower is required to submit its resettlement plan to the Bank Group.</p>
5.9 Develop a policy on populations displaced by project activities	Preparation of the list of on-going projects which involve involuntary resettlement is part of OESU's work program for the second half of FY98.
5.10 Implement the policy on populations displaced by project activities	The Bank Group continues to participate actively, along with other organizations such as the ECA, OAU, UNEP and UNDP in the meetings and activities of the Inter-governmental Negotiation Committee on Desertification (INCD). During the period under review, the Bank Group played an important role in the INCD. It provided substantive support to the work of the OAU African Ad-Hoc Working Group of Experts for INCD, as well as financial support to produce a discussion paper on financial resources and mechanisms for implementation of the Convention and the African Annex. The ADB is also a member of the Interim Secretariat of the Convention to Combat Desertification (CCD).
5.11 Publish a regularly updated list of all ongoing projects which involve involuntary resettlement, including the number of people displaced	The ADB Group has cooperated with the World Bank, UNEP and UNDP in the program to implement Global Environmental Facility (GEF) activities, as well as in the implementation of the Bio-diversity and Climate Change Conventions. In June 1998, a GEF team, composed of representatives of the three above-named institutions, held a training workshop with Bank staff to familiarize them with GEF project submission guidelines and procedures. The team also discussed the potential for co-financing Bank-related projects which fulfill GEF requirements.
5.12 Coordinate with other institutions in working towards stemming the problem of desertification in Africa as well as to study ways of assisting in the implementation of the Convention on Desertification, within the framework of the Bank programs and projects	The Bank is making some progress in addressing gender issues. A gender expert has assumed duty. Training in the mainstreaming of gender issues is programmed to take place during the second half of 1998. As of early 1998, the Bank has started to include cross-cutting expertise in selected CSP missions with a view to developing an overall strategy for incorporating these concerns in Country Programming. Also, the Bank has funded WID stand-alone projects for several years
5.13 Cooperate with the Global Environment Facility, through its implementing agencies, in addressing issues bearing on bio-diversity international waters, ozone layer and global warming	
5.14 Employ adequate number of gender experts who will assist in ensuring the mainstreaming of gender concerns at both policy and project levels, including the development of operational guidelines for the	

integration of gender issues into projects in the various sectors, conducting gender impact studies etc	<p>in a number of countries, e.g. the Gambia, Senegal, Ghana, Mozambique, Malawi and Egypt. Women have also been primary beneficiaries in number of stand-alone poverty projects, where micro-credit has been an important component. More specifically, AMINA is expected to benefit many women. (For more details see Annex 5: Gender, <i>First meeting on the Mid-Term Review of ADF-VII</i> and the relevant sections in the <i>Proposal for the Eighth Replenishment of the African Development Fund</i>). The Bank will start revising the existing WID policy document during the second half of 1998. As a first step in the revision process, a Gender seminar will be convened at Bank headquarters in September 1998. Finally, it should be emphasized that following the reorganization 23% of professional staff have been women.</p> <p>The tables in annex 1 presents the actual and projected proportional breakdown of commitments through December 1997 and December 1998 by sector. Maintaining respect for the 40% agriculture and 20-25% social sector targets is important. However, it should be noted that out of the total ADF commitments of UA 944.34 million over the period 1996-1997, UA 650.53 million, or about 69 percent were made on operations in agriculture and related activities, stand-alone poverty projects and the social sectors. Cumulative commitments to the traditional agricultural sector alone amounted to about 20 percent of total commitments for the 1996-97 period. However, when agricultural-related activities in public utilities and transport projects are taken into consideration, this percentage rises close to 44 percent. (See section 3.2 of the March 24, 1998 <i>First Meeting on the Mid-Term Review of ADF-VII</i> document).</p> <p>The cumulative commitments to traditional social sector during the period of 1996 and 1997 amounted to 18.2 percent. However, when taking into consideration the stand alone poverty alleviation projects, this percentage arises to over 25%. Given projects in the 1998 Lending Program, it is the expected that the sectoral objective of 20 to 25 percent will be maintained.</p> <p>Building on, and utilizing some of results of the report of a similar exercise which was carried out for the mid-term review of ADF VI, the Operations Evaluations Office (OPEV) undertook an assessment of Bank Group Policy-based lending operations for the period 1986-97. One of the conclusions of the study is that, overall, the adjustment process in Africa has been relatively successful. There are, of course, variations from one country to another. The variations were determined by several factors, including the extent to which a political leadership succeeded in building nation-wide consensus for the program; the extent to which a government was able to maintain fiscal discipline; effects of exogenous factors, such as variations in weather conditions. Even though the ADB Group remains a minor player (in terms of resources devoted to adjustment lending), it can – as part of the donor community – lay a limited claim to some aspects of the success. Bank Group effectiveness could have been further enhanced if it carved a role, no matter how limited, for itself from among the numerous goals of adjustment lending and devoted its limited resources to that end.</p> <p>Policy-based lending operations as economy-wide programs call for the implementation of reform measures that are typically beyond the administrative capacity of regional member countries. Right from the design stage, countries have had to rely on external assistance for the formulation of the Policy Framework Papers. It was found that this reliance on external assistance continued throughout the life span of most programs, raising the well-known problem of ownership of these programs. It is not clear whether a program, which is not indigenously owned by a country, could be faithfully implemented by it.</p> <p>Another conclusion of the study is that the Bank Group should take a longer-term view of the adjustment process. The first</p>
5.15 Ensure that project lending during the ADF-VII period shall in practice produce a break-down rising to 40 percent for the agricultural sector and related activities and 20 to 25 percent for the basic social sectors	
5.16 Assess the development impacts of the policy-based lending (PBL) instrument and report on export/imports	

	<p>generation of adjustment programs were mostly instruments of crisis management. That crisis is now more or less over in most countries, with the general acceptance of the view that there are no substitutes for sound economic policies. The next generation of adjustment programs should, therefore, focus on long-term development issues, including strong linkages between policy reforms, project lending in specific investments, human resource development and environmental care.</p> <p>OPEV recently received the consultants' second draft of the TAF evaluation study. It will be ready for distribution by third quarter, 1998. The report found that projects resulting from TAF studies generally performed no worse than non-TAF generated projects. Issues of staff availability for adequate supervision, and linking TAF with policy impact and institutional capacity were raised. It was recommended that more indicators (MPDE) be established to measure impact, output and accomplishment of TAF activities which should be linked to the Bank/Country Strategy. Criteria for allocating TAF resources between financing studies and project preparation activities and institutional capacity building should be revised, if TAF operations have to increasingly improve their impact and contribution to the institutional development of RMCs. This may involve a larger allocation for capacity building activities and closer linkage to project cycle activities.</p> <p>In order to reinforce dialogue on regional integration with RMCs, the CSPs have incorporated sections that deal specifically with national perspectives on regional economic integration. The subject is also reviewed every year in the annual CSP update, a document which constitutes the basis of dialogue between the RMCs and the Bank Group. Regional cooperation and integration has also been pursued under the implementation of the National Seminars. The most recent of these – the Study on Economic Integration in Southern Africa (SEISA) – were held in Malawi and Mozambique. Two more seminars are planned to be held in Angola and Mauritius.</p>
5.17 Evaluate the performance of TAF operations	<p>With respect to ADF funding of multinational projects, until recently, the directive that these projects be financed from country allocations has almost halted their financing. This was not consistent with the priority accorded by ADF to regional integration. The continued application of this rule remains a major obstacle to ADF financing of multinational projects.</p> <p>Since 1995, the Bank Group has been implementing a time-bound Action Plan for Improving the Quality of Operations. The measures under the Action Plan focus on issues related to programming strategies, lending policies and practices, monitoring and post-evaluation, and operational reporting through the various stages of the project cycle. The Action Plan aims at ensuring systematic application of existing guidelines, particularly with regard to country operational strategies and scheduling of more effective project implementation and supervision reporting. The Plan also provides for the preparation of Annual Portfolio Performance Review reports. The Action Plan covers nearly every area of operations and has been incorporated into the regular operational system and the project cycle to enhance the capacity to design, implement and monitor operational activities. Major advances made in these areas are reported in the 1997 Annual Report as well as the March 24, 1998 First Meeting on the Mid-Term Review of ADF-VII documents.</p> <p>This is covered in section six below.</p>
5.18 Continue dialogue with borrowing countries on the subject of regional cooperation and integration	
5.19 Report on the progress made on the implementation of loan quality Action Plan	
5.20 Report on progress made on the organizational, management and staffing	
5.21 Report on progress in implementing the procurement oversight, including adopting standard bidding documents and submitting procurement	<p>The Bank Group has implemented several positive changes within the Procurement Monitoring and Consulting Services Unit. Firstly the number of professional staff has been increased from four to six, while two others are expected before the end of the year. The scope of activities of the Unit has also been fine-tuned, including the modernization of the registration of consultants (a</p>

disbursements annually to the Boards of Directors	<p>new system was put into place) and increased training with respect to the rules and procedures for procurement. With respect to policies and procedures, the Boards of Directors had approved, in July 1996, the <i>Rules of Procedure for the Procurement of Goods and Works</i>, and the <i>Rules of Procedure for the Use of Consultants</i>. The Bank also now produces annually a report which contains information on the procurement and contract award activities of Borrowers under Bank Group-funded projects, programs and studies. Bank In addition to using the UN Development Business newspaper to advertise projects with procurement needs, the Bank also uses UNDP-IAPSO for vehicles and office equipment purchases as well as UNIPAC for health products. The ADB Business Bulletin expressing Bank needs is produced and circulated widely and replaces the former ADB Procurement Letter.</p> <p>In line with the Revised Guidelines on Cancellation of Loans, efforts have continued in 1996 and 1997 to cancel undisbursed loan balances for completed projects, non-performing loans and grants and other commitments, with the objective of clearing up the Bank Group's portfolio. Following extensive consultations with the borrowers and the responses to notices sent to them, major cancellations of loans and grants have been concluded. As a result, the cancellations over the period September 1996 to October 1997 amounted to UA 1.79 billion. The resources from cancellations are returned to the appropriate common pools for reallocation to new investments in accordance with the established Bank Group criteria. The Bank also undertook an in-depth analysis of problematic and aging projects in first quarter 1998 with the intention of closing those which have remained chronically problematic.</p>
5.22 Adhere to Guidelines on Cancellation of Loans	
6. ORGANIZATIONAL, MANAGEMENT AND STAFFING ISSUES	
6.1 Implement measures for clear and proper delegation of authority, for transparent recruitment and promotion procedures, and for comprehensive job descriptions	<p>Bank restructuring took place in 1995 and has been well documented in the Annual Reports and other reports to the Boards. Recently, the Bank completed a job classification exercise whereby all staff and management positions were defined and graded. Responsibilities were defined in the job descriptions. The process for defining and grading jobs has been put into a handbook and distributed to all departments. The Annual Reports also indicate the on-going process for recruitment and current staffing profile by gender, country, and professional levels. Two panels were set up on 31 October, 1996 to address promotion issues. The first panel, the Management Selection and Promotion Panel, is charged with responsibilities: to interview and recommend for recruitment, candidates for all managerial positions; and to propose and recommend to Management all promotions to managerial positions. The second panel, the Staff Selection and Promotions Panel, recommends to Management recruitment and promotions to non-managerial positions. It will be noted that at the onset of the Bank's restructuring, transparency was exercised during the selection process for managers by providing for the participation of each of the (then) new Directors in the selection of their Division Chiefs. Staff Rule 5.22 was amended by Presidential Instruction No. PI 003/98 issued on March 16, 1998 which underscored the new review process for all promotions. With the completion of the job evaluation exercise in April 1998, comprehensive job descriptions are now available for all Bank positions.</p> <p>Delegation of authority matrices have been prepared for Country Operations, Treasury, Loan Administration, Budget, Human Resources Management, and Acquisition of Goods and Services. The last element also requires a revision of financial regulation 12.2(2). The President has approved, in principle, the delegation matrices, signatory authorities, and framework document. The Boards will consider the framework document in July 1998 and following the approval of the amended financial regulation, the Presidential Instruction will be issued.</p> <p>In April 1996, the Boards of Directors approved an information technology and telecommunications modernization plan (ITMP) to be implemented over three years. The desktop and local area network (LAN) equipment has been enhanced by</p>
6.2 Reinforce efforts with respect to computerization,	

<p>6.2 Reinforce efforts with respect to computerization, efficient staffing levels with the increased emphasis on poverty reduction, enhanced environmental management and improved portfolio management, as well as non-regional staffing</p>	<p>In April 1996, the Boards of Directors approved an information technology and telecommunications modernization plan (ITTMP) to be implemented over three years. The desktop and local area network (LAN) equipment has been enhanced by acquisition and deployment of 950 Pentium 166mhz personal computers, 18 file servers, 40 network, 300 laser and 6 color printers, and 6 color scanners. With respect to e-mail, the Bank Group has installed MS Mail (trademark), an electronic mail (e-mail) system which is consistent with standard communication protocol available world-wide. An INTELSAT Standard B earth station was acquired and placed in service in Abidjan in the first quarter of 1998. This satellite will ensure communication availability at much lower cost. In addition, the satellite will provide wide area coverage of the African Region together with access to Europe and North America; have access all desirable INTELSAT satellites in the orbit; have ability to add communication services to future Regional Offices. Also, the Bank's Intranet Web site became operational with more than 500 initial WEB pages to provide staff with access to a wide range of information resources. The Bank Group's Internet Home Page is also now available.</p>
<p>6.3 Increase the number of female staff members, especially at the professional and managerial levels</p>	<p>As at 16 June 1998, the gender distribution is 32 per cent female and 68 per cent male. At the professional category, 23 per cent are female, and 77 per cent are male, as compared to 20% professional female staff in September 1995, just prior to restructuring. During the remainder of 1998, human resource management activities will continue to focus on concluding the recruitment campaign by filling the remaining vacancies, improving the skills mix of the Bank, and increasing efficiency and institutional performance. In addition, new initiatives in the area of organizational renewal will continue with a view to increasing the efficiency of Bank Group operations. Consultations with the World Bank on developing a strategy to increase this percentage further are also currently ongoing.</p>
<p>6.4 Demonstrate increased budgetary rigour with particular reference to overall personnel costs</p>	<p>As part of the institutional reforms implemented by the Bank Group, Management has taken various measures, beginning from 1996, to establish a new budget culture in the Bank. The measures are aimed at rationalizing the Bank's expenditures and reducing its running costs, whilst improving the quality of the services provided its to clients.</p> <p>The year 1997 marks an important break with the previous practice regarding budgeting, by the introduction of a new approach, the activity-based budget and the institution of a three-year rolling budget. This new approach provides management and the Boards of Directors with a logical framework for establishing a correlation between the overall strategic orientations of the Bank, the work programs of its component Units and their activities. Furthermore, it compels the managers to express their choices in respect of the types of activities to be carried out and the volume of these activities, particularly when they are subject to budgetary constraints.</p> <p>The application of the new method made it possible to maintain the approved 1997 administrative expenditures budget at the same level as in 1996, whilst reallocating more resources for operational activities. The share of operational activities in the budget increase from 47 percent of administrative expenditures in 1996 to 54 percent in 1997. The 1998 budget estimates bring this proportion, for the first time in the Bank's history, to over 60 percent.</p> <p>Concerning expenditures specific to staff, there have been serious on-going efforts since the end of 1995 to keep them at reasonable levels. A new Bank organizational structure became effective in 1996, under which the staffing gives greater emphasis to operations and management is rationalized. The restructuring operation led to the departure of about 200 staff members under</p>

	<p>the voluntary and involuntary separation programs in 1996. Another voluntary separation program was implemented in 1997 for the support staff, which made it possible to reduce this staff category by 60 positions.</p> <p>Thus personnel expenditures declined from UA 78.51 million in 1995 to UA 55.91 million in 1996 and UA 56.49 million in 1997 respectively, i.e. reductions of about 30 percent from 1996 compared to 1995 and 22% from 1997 compared to 1995. The slight increase in 1997 over 1996 is mainly due to the Bank's expanded training program introduced for all categories of staff. Concerning the 1998 budget, it is planned to bring the personnel expenditures to about UA 55.87 million. In addition, the Bank will increasingly resort, in future, to staff with short-term contract which costs less compared to permanent support staff. Lastly, the Bank has launched an extensive information technology and telecommunications modernization program which, in the longer run, will lead to reduction in costs relating to support staff.</p> <p>During 1997, Communications Unit (COMU), which performs the role of designing and implementing Bank Group communications policy and strategy, reviewed the public relations and information function of the Bank Group resulting in a redefined Communications Policy. Over the next three years the policy will pursue the following areas of work: <i>Publications and Press Releases</i>: The Unit will continue to produce French and English issues of the ADB newsletter, as well as ADB Basic Information, ADB in Brief publications, press releases and press digests of media reporting on the activities of the Bank Group.</p> <p><i>Media Coverage of Annual Meetings</i>: Special television and radio programs are to be organized and editorial and supplements placed in a number of international magazines and newspapers, covering both regional and non-regional member countries. Support was provided to about 150 media representatives for the 1997 meetings, and press briefings, and photographic coverage of major events were arranged during annual meetings.</p> <p><i>Public Information Center</i>. In cooperation with other Units of the Bank, COMU participated in the preparatory work for the establishment and operation of the ADB Public Information Center (PIC), which will be one of the main tools for Bank Group corporate communications policy, strategy and work program.</p> <p><i>Disclosure of Information Policy</i>: The implementation of the Information Disclosure Policy has been initiated. This policy has been prompted by the Bank's commitment to the greatest possible degree of transparency and accountability in its activities to ensure the success of its mission and to sustain public support, while recognizing important legal and practical constraints. The basic objectives of the policy are to: encourage debate and dialogue on policies and operations, generating new and varied perspectives; ensure effective grass-roots participation and ownership for better implementation and sustainability of projects; broaden understanding of the Bank's role among its audiences to strengthen support for the Bank and its mission; facilitate coordination with those interested in the goal of development of the African continent; and increase the Bank's accountability to its shareholders and constituents.</p> <p>The Communications Unit, Public Information Center and the ADB Internet Web site will be the main channels for the implementation of the Bank Group's Disclosure of Information Policy.</p> <p>The Information Disclosure Policy is the initial step needed in the establishment of an Inspection Function since the Bank's public observers need first to be informed about the Bank's procedures and policies. The Disclosure policy, having been</p>
6.5 Propose to the Board of Directors an effective policy on information access taking into consideration the feasibility and budgetary implications	
6.6 Propose to the Board of Directors the setting up of an Inspection Function after taking into consideration	

the feasibility and budgetary implications	<p>approved by the Boards, is still in the stages of early implementation. Preparations for the establishment of an Inspection Function therefore will take place once the policy has begun to take full effect.</p> <p>Management has taken the following measures: the Internal Audit Department (AUDIT) staff has been strengthened with the recruitment of new internal auditors and the new Director of Audit was appointed on March 17, 1998. The Internal Audit Department's Charter has been prepared. This charter reinforces AUDIT's mandate to perform and allows for the auditing of all Bank Group activities, including those found in operations and management. Additionally, the Institute of Internal Auditors undertook quality Assurance Review of the Audit Department in January 1997. The objectives of the Review were to ascertain whether the Bank Group's Audit function conformed with the best practice of internal auditing and to make recommendations for enhancing AUDIT's effectiveness and efficiency. Based on the recommendations of the Review, the Audit Department has set up a number of internal procedures to improve the quality of work and to ensure continuous compliance with international professional standards of internal auditing. These included: restructuring of the Department to improve independent review of work before issuance of reports and revision of the scope of work to fully comply with international professional standards of internal auditing. Consequently, the draft charter for internal audit has been prepared and is now under review.</p> <p>The Audit Department has also launched a Bank Group-wide campaign to assist all Bank Group's departments/units strengthen their internal control systems and procedures, by advising the departments/units on the adequacy of internal controls during the design of new systems and procedures or during modification of existing ones. As part of their professional continuous education, Audit Department staff have undergone training in modern tools and techniques of internal auditing. Audit Department staff training will be continuous to keep the staff abreast of developments in their profession.</p>
6.7 Maintain a strong and independent internal audit function with an extended mandate that includes the examination of operational and financial procedures and practices	
7. FINANCIAL POLICY ISSUES	
7.1 Examine alternatives to the cost sharing formula and provide a detailed report by the time of the Mid-Term review	<p>The cost sharing formula currently in use was adopted by the Joint Boards of Directors of the ADB and ADF in 1993 after a thorough study of cost sharing practices in comparative institutions. The formula is, in many respects, comparable to those of the other major MDBs. It is based on sharing pooled expenditures incurred by Departments directly involved in developmental activities (operational expenditures), i.e. the granting of loans and grants according to the number of activities carried out, as measured by the number of projects and/or grants approved or under implementation during the reference period; and the pooled expenditures of the rest of the Bank Group (non-operational expenditures) according to the size of the assets of each of the Bank Group institutions.</p> <p>By using the number of projects presented to the Board or under execution as a proxy for the volume of work carried out, the formula assumes that the preparation, appraisal and supervision of implementation of any project costs the same regardless of its size and location. In practice, however, because of the relative underdevelopment of ADF countries and the sector focus of ADF (agriculture and the social sectors), the volume of work involved in following up on an average ADF project through the project cycle is typically higher than is the case for an average ADB project, even though the size of the average ADB project is larger. The formula may, therefore, be said to be biased in favour of the ADF with respect to the partition of operational expenses. Furthermore, given the Bank's current policy of allocating increasingly higher proportions of its administrative budget to operational activities, the higher rate of growth of ADF activities in terms of the number of projects financed, and the growth in ADF assets, ADF expenditures will increase correspondingly.</p>

	<p>Management evaluated other indicators of operational activities such as annual commitments or disbursements and concluded that, based on the highly unstable nature of such indicators during the past five years, they represent less reliable bases for allocating costs. Management is, therefore, of the view that the current cost sharing formula provides a reasonable basis for allocating pooled expenditures of the Bank Group.</p>
7.2 Improve the Fund's financial situation, in particular by achieving a positive net income level	<p>There has been a substantial improvement in the net income position of the Fund. The Fund made a marginal profit of UA 1.19 million in 1997, compared to the losses of UA 11.67 million and UA 12.80 million reported for 1996 and 1995, respectively. Given the 0.75 percent service charge and the recent introduction of commitment charges of 0.50 percent on undisbursed commitments, the Fund can continue to at least break-even, as long as reasonable levels of liquidity are maintained and interest rates do not fall substantially below current levels.</p>
7.3 Develop and implement proposals for a liquidity policy more closely related to projected disbursement levels	<p>Management has prepared a document entitled "Revised ADF Liquidity Policy", which will be presented to the Board of Executive Directors of ADF for its consideration during the second quarter of 1998. The document proposes that ADF should adopt a new liquidity policy to replace the current policy, which sets the current year-end liquidity ceiling at UA 368.42 million. The new policy recommends that ADF should adopt a range for the level of liquidity, a minimum level and a maximum level, that must be maintained throughout the year. Unlike the current liquidity policy, both the minimum level and the maximum level of liquidity will be determined annually on the basis of estimates of the key cash flow variables of ADF, i.e. disbursements and repayments, and the need for ADF to generate a positive net income every year as requested by ADF Deputies during ADF-VII negotiations.</p>

Annex 1

Tables indicating ADF-VII commitments and Projected Commitments *

* See notes to Tables 5 and 6 for detail.

Table 1
ADF-VII Commitments by Country Category
(UA million)

Country Category	1996	1997	Total	Percentage	Objective
Category A	186.14	713.49	899.63	95.3	95.0
Category B	13.00	31.72	44.72	4.7	5.0
Total	199.14	745.21	944.35	100.0	100.0

Table 2
ADF-VII Commitments by Sector
(UA million)

SECTOR	1996	1997	Total	Percentage	%Target
Agriculture	45.10	140.04	185.14	19.6	40
Industry	5.00	0.00	5.00	0.5	
Public Utilities	75.60	49.71	125.31	13.3	
Transport	43.93	113.32	157.25	16.7	
Social	21.71	150.21	171.92	18.2	20-25
Multisector	7.80	291.93	299.73	31.7	
Total	199.14	745.21	944.35	100.0	

Table 3
ADF-VII Commitments by Lending Instruments
(UA million)

	1996	1997	Total	Percentage	Objective
Project Lending	176.34	507.88	684.22	72.5	70.0
Projects	150.81	507.88	658.69	69.8	
Lines of Credit	5.00	0.00	5.00	0.5	
Sector Investments	20.53	0.00	20.53	2.2	
Policy-Based	22.80	211.73	234.53	24.8	22.5
Structural	7.80	211.73	219.53	23.2	
Sect. Adjustment	15.00	0.00	15.00	1.6	
Tech. Assist.	0.00	25.60	25.60	2.7	7.5
Institution Building	0.00	4.10	4.10	(16.0)	(10.0)
Studies	0.00	21.50	21.50	(84.0)	(90.0)
TOTAL	199.14	745.21	944.35	100.0	100.0

Table 4
COUNTRY PERFORMANCE ASSESSMENT

Performance	Number	Resources Allocated (UA Million)	Percentage (%)
Enhanced	13	659.96	47.4
Normal	15	605.88	43.5
Reduced	3	47.50	3.4
Core	10	78.00	5.7
Total	41*	1,391.34	100.0
*Nigeria is not included.			

Table 5
Cumulative Commitments and Projections of ADF-VII Resources by Sector
(UA million)

Sector	1996	1997	1998*	Total	Percentage	Objective
Agriculture	45.10	140.04	271.78	456.92	25.4	40%
Industry	5.00	0.00	0.00	5.00	0.3	
Public Utilities	75.60	49.71	112.74	238.05	13.2	
Transport	43.93	113.32	65.3	222.55	12.4	
Social	21.71	150.21	118.18	360.10	20.0	20-25%
Multisector	7.80	291.93	217.35	517.08	28.7	
Total	199.14	745.21	855.35	1799.70	100.0	

* The figures presented here represent the 1998 Work Program and not actual commitments. The work program is usually larger than the remaining balance of allocations because of slippage and some operations dropping out of the program. Sectoral and lending instrument allocations are monitored to ensure that directives are respected. See section 5.15 in Matrix about sectoral allocations.

Table 6
Cumulative Commitments and Projections of ADF-VII
Resources by Lending Instrument
(UA million)

Instrument	1996	1997	1998*	Total	Percentage	Objective
Project Lending	176.34	507.88	623.97	1308.19	72.6	70.0%
Projects	150.81	507.88	620.97	1279.66	71.1	
Lines of Credit	5.00	0.00	3.00	8.00	0.4	
Sector Investments	20.53	0.00	0.00	20.53	1.1	
Policy-Based Lending	22.80	211.73	187.88	422.41	23.5	22.5%
Structural Adjustment	7.80	211.73	36.10	255.63	14.2	
Sect. Adjustment	15.00	0.00	151.78	166.78	9.3	
Tech. Assist.	0.00	25.60	43.50	69.10	3.9	7.5%
Institution Building	0.00	4.10	9.58	13.68	(19.8)	(10.0%)
Studies	0.00	21.50	33.92	55.42	(80.2)	(90.0%)
TOTAL	199.14	745.21	855.35	1799.70	100.0	100.0%

* The figures presented here represent the 1998 Work Program and not actual commitments. The work program is usually larger than the remaining balance of allocations because of slippage and some operations dropping out of the program. Sectoral and lending instrument allocations are monitored to ensure that directives are respected.

TABLE 7
DATA AND ASSUMPTIONS

REVISED INDICATIVE ADF-VII RESOURCE ALLOCATIONS		
ASSUMPTIONS	Amount (UA million)	
Total ADF-VII resources less commitments for the HPCs initiative	2,051.00	
At least 70 percent of ADF-VII resources shall be allocated for project loans	1,435.70	
Up to 22.5 percent of ADF-VII resources shall be allocated for PBL (less UA 133 million for SFM)	328.48	
Up to 7.5 percent of ADF-VII resources shall be allocated for TAF grants (less UA 15 million for AMINA)	138.83	
Indicative country allocations for project loans and TAF grants are based on size of population, with a weight of 45 percent and relative poverty (per capita GNP), with a weight of 55 percent.		
PROJECT LENDING		
95 percent of the resources for project loans shall be allocated to Fund-only countries	1,363.91	
5 percent of the resources for project loans shall be allocated to Blend countries	71.79	
a) <u>Fund-only countries</u>		
On the basis of relative poverty, 55 percent of resources are allocated for project loans	750.15	
On the basis of size of population, 45 percent of resources are allocated for project loans	613.76	
b) <u>Blend countries</u>		
On the basis of relative poverty, 55 percent of resources are allocated to Blend countries	39.48	
On the basis of size of population, 45 percent of resources are allocated to Blend countries	32.30	

TABLE 7 (continued)

DATA AND ASSUMPTIONS	Amount (UA million)
<p><u>TECHNICAL ASSISTANCE GRANTS</u></p> <p>95 percent of the resources for TAF grants shall be allocated to Fund-only countries 5 percent of the resources for TAF grants shall be allocated to Blend countries</p> <p>a) <u>Fund-only countries</u></p> <p>On the basis of relative poverty, 55 percent of resources are allocated for TAF grants On the basis of size of population, 45 percent of resources are allocated for TAF grants</p> <p>b) <u>Blend countries</u></p> <p>On the basis of relative poverty, 55 percent of resources are allocated for TAF grants On the basis of size of population, 45 percent of resources are allocated for TAF grants</p>	<p>131.88 6.94</p> <p>72.54 59.35</p> <p>3.82 3.12</p>
<p><u>POLICY-BASED LENDING</u></p> <p>The resources for policy-based lending are not allocated by country since eligibility will be determined by a country's adoption and implementation of an internationally monitored adjustment program. PBL allocations shall not exceed 50 percent of the indicative allocation over the ADF-VII period, except in exceptional cases approved by the Board of Directors.</p>	<p>328.48</p>
<p><u>PERFORMANCE ALLOCATIONS</u></p> <p>Country re-allocations based on performance will be determined as follows:</p> <ul style="list-style-type: none"> (i) Good performers shall be eligible for increases of up to 50 percent in their indicative allocations (ii) Satisfactory performers shall be eligible for retaining their indicative allocations (iii) Less satisfactory performers shall have their indicative allocations reduced by up to 50 percent (iv) For countries that do not meet any of the acceptable performance criteria, assistance will be confined to a core program that should not exceed 20 percent of the indicative allocation. Those that cease to meet any of the criteria will have no program at all. 	