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**PROVISIONAL SUMMARY RECORDS OF THE
FIRST CONSULTATIVE MEETING ON THE SEVENTH
GENERAL REPLENISHMENT OF THE ADF RESOURCES**

ABIDJAN, 14 AND 15 MAY 1993

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PROVISIONAL SUMMARY RECORDS OF THE FIRST SITTING
held at the Salle des Fêtes, Palais des Congrès
Hôtel Ivoire in Abidjan (Côte d'Ivoire) on
Friday, 14 May 1993 at 10.20 a.m.

- CHAIRMAN** : **Mr. L. MAZAIRAC**
Director General of International Co-operation,
Ministry of Foreign Affairs, the Netherlands
- FOR THE BANK GROUP** : **Mr. Babacar NDIAYE**
President
- SECRETARY** : **Mr. H. MELIANE**
Secretary-General
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 - Policy Issues under ADF-VII :**
 - (a) Country Allocation and Performance;**
 - (b) Enhancing Loan Quality (Agenda item 4.1)**

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OPENING OF THE MEETING

1. The **CHAIRMAN** welcomed Deputies as well as the Chairman of the Boards of Governors, who attended the proceedings as observer. He then gave the floor to Mr. Babacar **NDIAYE**, President of the Bank Group, to make his opening statement.

OPENING STATEMENT BY THE PRESIDENT OF THE ADB GROUP

2. The **ADB PRESIDENT**, in his opening remarks, also welcomed delegates to the First Consultative Meeting on the Seventh General Replenishment of the Resources of the African Development Fund. On behalf of the Deputies and on his own behalf, he thanked Mr. Leon **MAZAIRAC** for consenting to be the ADF-VII Co-ordinator. He was confident that both Management and State Participants would benefit from Mr. **MAZAIRAC**'s extensive experience in international development issues. In fact, Deputies could vividly recall how effectively he had steered the meeting on the Mid-Term Review of ADF-VI Operations in the Hague, in November the previous year.

3. The purpose of that meeting was to finalize the Mid-Term Review of ADF-VI operations and to embark on consultations relating to the Seventh General Replenishment of the Resources of the Fund. There was need to conclude those consultations on time so as to sustain operations unencumbered in 1994. The agenda for the meeting focused on the results of the Mid-Term Review of ADF-VI operations, policy issues under ADF-VII and ADF-VII replenishment scenarios. Management had prepared five papers to facilitate the deliberations.

4. The first paper, An Update on some Fund Policies since ADF-VI Mid-Term Review meeting, updated the information provided by Management at the ADF-VI Mid-Term Review meeting relating to such areas as poverty alleviation, the social sectors and the environment. As Deputies noted from the document, Management had commissioned an

assessment study on the Bank Group's experience in financing policy-based lending operations. The study was scheduled to be completed by the end of June, after which the findings would be submitted to the Boards of Directors by August 1993.

5. One of the papers dealt with loan quality enhancement. It presented an overview of measures, adopted or planned, to enhance the realization of project and programme objectives. As he had pointed out in his Annual Meetings statement a couple of days earlier, a Committee of senior Bank staff would be established to examine loan processing procedures and guidelines; loan approval and implementation criteria and practices with a view to making concrete recommendations for improvement.
6. The concluding paper outlined ADF development objectives and orientations and addressed the issue of concessional resource requirements. The general case for increasing concessional resource flows to low-income countries was known well enough and had been presented by representatives of several countries. In addition, the ADF should take into account several specific considerations. It should move to enrich and expand environmental programmes. Management was thus committed to implementing "Agenda 21" and to participating in activities related to the Global Environmental Facility, as well as supporting the development of National Environmental Action Plans. There was the pressing need to meet the concessional resource requirements of Category A countries, especially in view of the limitations of access to ADB resources. As he had indicated at the Annual Meetings, Management could advance decisively on the problem if ADF was replenished substantially. The ADF should channel additional resources to tackle the problems of poverty and debt. The Fund should be innovative in handling those two persistent problems. Some specific ideas had been proposed in the working papers.
7. The Mid-Term Review of ADF-VI operations had been, and would continue to be, of great use to Management in steering the Fund towards greater efficiency and effectiveness. It also gave State Participants the opportunity to keep closer to the operations

of the Fund in particular and, indeed, of the Bank Group as a whole.

8. State Participants had expressed support for Africa-based development institutions that understood and effectively responded to the needs of the people on the continent. Deputies appreciated the fact that the Fund had grown in experience and resources over the years to become a respected source of counsel and finance in Africa. Therefore, as Management looked at the development agenda of the 1990s, it perceived a much enhanced role for the Fund to respond to the challenges of poverty, environment and debt. He believed that Deputies would adequately address those key issues, and proceed with the necessary urgency so that the consultations could be concluded by the end of the year.

ADOPTION OF THE REVISED PROVISIONAL AGENDA (ADF-VII/CM.1/93/01/Rev.1) (Agenda item 1)

The Deputies adopted the revised agenda for the first consultative meeting on the Seventh General Replenishment of ADF Resources, reproduced as an annex.

ADOPTION OF THE SUMMARY RECORDS OF THE ADF-VI MID-TERM REVIEW MEETING HELD IN THE HAGUE, THE NETHERLANDS ON 16 AND 17 NOVEMBER 1992 (ADF/ZG/MTR-ADF-VI/92/SR.1) (Agenda item 2)

9. The CHAIRMAN submitted the above Summary Records to the Deputies for adoption.

10. The REPRESENTATIVE of FRANCE said that he had communicated his amendments to the Office of the Secretary-General and requested that they be incorporated into the final text.

It was so decided.

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The Deputies adopted the Summary Records of the ADF-VI Mid-Term Review Meeting held in the Hague, the Netherlands on 16 and 17 November 1992, subject to the amendments submitted to the Office of the Secretary-General by the Representative of France.

RESULTS OF ADF-VI MID-TERM REVIEW : AN UPDATE ON SOME FUND POLICIES SINCE ADF-VI MID-TERM REVIEW MEETING (ADF-VII/CM.1/93/03)
(Agenda item 3)

11. Mr. RWE GASIRA (ADB) pointed out that the document was a brief update of a number of issues on which Management had made progress since the Mid-Term Review meeting in November 1992, with particular reference to poverty alleviation, the social sector, the environment, policy-based lending, women in development, the use of the Technical Assistance Fund resources and the ADB/ADF cost-sharing formula.

12. With regard to poverty alleviation, he assured the Deputies that Management was in the process of finalizing the relevant operational strategies and guidelines. A pilot phase entailing the preparation of country profiles had also been launched and the results would be used to enhance the poverty alleviation focus of Economic Prospects and Country Programming Papers (EPCPs). Furthermore, the Bank Group's first poverty alleviation project was approved by the Board of Directors in December 1992 for Zambia. The project's main objective was to mitigate the short-term adverse effects of adjustment and to develop the country's capacity to identify, prepare and implement micro-programmes.

13. On the social sector front, a policy paper on population had been approved by the Boards of Directors.

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14. As regards the environment, Management had finalized a policy paper on forestry, which would be submitted to the Boards for consideration towards the end of May 1993.
15. As rightly pointed out by the Bank President in his opening remarks, Management had established a committee to appraise the Bank's policy-based lending operations using, as basis, a sample of twenty (20) out of a total of sixty-six (66) projects approved by the Boards as at the end of December 1992. The analysis would focus on resource management, macro-economic and sectoral performance as well as social and institutional implications. Management hoped that the exercise would be completed by June 1993 so that its conclusions could be considered by the Deputies at a future consultative meeting.
16. In the area of women in development, Management had continued to incorporate more gender issues into project design, preparation and implementation. Special training sessions had been organized for the Bank's operational staff and appropriate guidelines were being prepared. Guidelines had also been worked out for project design in the agricultural sector.
17. Much progress had been made in the study on women's access to credit facilities. In that regard, salient recommendations and proposals culminating in a concrete project proposal had been submitted to the UNDP for financing. There had also been co-operation activities in that area, especially with the United Nations Development Fund for Women, within the framework of an advisory committee to develop a comprehensive programme on gender training and research in Africa. Management was also working in close collaboration with the Economic Commission for Africa (ECA) in preparation for the Conference on Women scheduled for 1995 in Beijing, the People's Republic of China.
18. With regard to the use of the Technical Assistance Fund resources, it was worth noting that the 1993 lending programme had been structured in such a way that by the end

of the ADF-VI period, 18% of TAF resources would have been used for institutional building in borrowing countries with a specified amount going to project-related activities thereby exceeding the 80% earmarked by Deputies under the Sixth Replenishment.

19. The issue of cost-sharing formula was discussed by the Boards of Directors during their deliberations on the Bank Group's 1993 administrative, operational and capital budgets. A consultant had been hired to look into the matter and report back to the Boards for final decision. Meanwhile, the cost-sharing percentages had been fixed at 42% for the ADB, 54% for the ADF and 4% for the NTF.

20. The **REPRESENTATIVE of ITALY** wanted more information on the Bank Group's first poverty alleviation project financed the previous year in Zambia. He also wanted to know the nature of micro projects being financed under the poverty alleviation initiative.

21. The **REPRESENTATIVE of BELGIUM** wished to have clarifications on the figures relating to the use of TAF resources. Given the current low level of implementation, he wanted confirmation that the targets set in paragraph 5.2 on project cycle and institutional support operations would be attained.

22. The **REPRESENTATIVE of the UNITED KINGDOM** focused attention on country programming since much emphasis was laid thereon during the mid-term review, particularly the need for improved EPCPs and country strategy papers which were considered to be key operational requirements under the Sixth Replenishment for effective programming and project quality. He recalled having expressed concern during the Hague meeting at the backlog of EPCPs and at the fact that most of the existing documents had not been updated. It had also been suggested that country strategy papers be circulated to Board members on annual basis to help them to effectively consider loan proposals submitted for approval. He wanted Management's view on the above issues as no reference had been made to them in

the working documents.

23. The **REPRESENTATIVE of GERMANY** observed that the document contained many promises on actions to be taken by the Fund during the course of the year which indicated that most of the recommendations made by State Participants under ADF-VI had not been fully implemented. Deputies should, therefore, be assured that the requests they had made would be met within the specified timeframe, particularly the preparation of operational guidelines on poverty alleviation, the strict application of the existing guidelines on the environment and the definitive settlement of problems relating to the sharing of administrative costs between the Bank and the Fund. In fact, he could not understand why the cost-sharing issue had not been resolved by the Boards of Directors in consultation with Management but had rather been entrusted to a consultant. He urged that the matter be settled expeditiously to avoid a situation whereby Fund resources would be used to subsidize the Bank.

24. With regard to the evaluation of Bank Group structural adjustment programmes, he drew attention to the fact that most of those loans were co-financed by the Bank Group and IDA or the World Bank. He wanted to know whether the Bank Group's evaluation process had been linked with that of those institutions and whether the appraisal exercise should be extended to all projects implemented so far.

25. The **REPRESENTATIVE of CANADA** emphasized the importance his country attached to Bank Group policies on poverty alleviation, women in development, the social sectors and the environment. He would, therefore, like additional information on those policies and their impact on the Fund's operations. Management should also indicate how country programming had influenced lending operations.

26. The **REPRESENTATIVE of NORWAY** thanked Management for the document submitted. He appreciated the emphasis laid on women in development, but drew attention

to the fact that two issues were raised on the subject during the Board discussions that followed the Mid-Term Review meeting in the Hague. Those issues concerned the extent to which Management had been able to operationalize the Bank Group's relevant policy coupled with indications given by certain Executive Directors that the WID Unit was to be dissolved and the activities transferred to the operations departments.

27. The **REPRESENTATIVE of SWITZERLAND** held the same view as his Belgian colleague on paragraph 5 of the document concerning the TAF resources since the information provided was not very clear on the actual utilization of those resources. He urged Management to step up efforts in project monitoring.

28. He also wished to reiterate his delegation's previous request that country strategy papers be made available to Board members. Furthermore, he recalled having observed that the comparative analysis of ADF-VI operations should not be limited to those of ADF-V but should rather be extended to earlier replenishments.

29. The **REPRESENTATIVE of JAPAN** appreciated the excellent preparatory work done by Management for those consultations. His delegation also welcomed efforts being made by the Fund to attain targets set under the TAF for both project-related and institutional support operations.

30. He, however, pointed out that it would be extremely difficult to assess the impact of institutional building since it could not be as tangible and quantifiable as that of a project. Nevertheless, Management should step up efforts to monitor and follow them up.

31. With regard to the share of administrative costs by the Bank and the Fund, Deputies should rather agree on percentage figures considering the fact that it would be very difficult to work out a formula acceptable to every one. Besides, those percentage figures could be reviewed every year during discussions on the administrative and capital budgets.

32. The **REPRESENTATIVE of FRANCE** drew attention to the fact that certain criteria had been established to ensure the quality of Fund-financed projects and urged Management to effectively apply them. In that regard, his delegation wished to emphasize the need to take account of post-evaluation results in project preparation. That would in fact enable the Fund to be consistent in its operational policies. Furthermore, there should be effective co-ordination between the Fund and other bilateral and multilateral co-operation agencies and institutions which should go beyond the scope of simple co-ordination meetings.

33. He did not quite understand the existing country allocation mechanism and felt that there were no justifications for certain decisions taken by the Board on the issue, particularly when those decisions were made without knowing all the relevant facts. As stated by his colleague from Switzerland, Management should always make available to Board members all necessary information and details for effective decision making.

34. Finally, while conceding that there should be some amount of flexibility on the cost-sharing issue, he felt that efforts should be made to ensure that the established criteria and rules were applied.

35. The **REPRESENTATIVE of the NETHERLANDS** stressed that Management should expeditiously finalize the operational guidelines on poverty alleviation for purposes of country programming and project preparation since the issue was central to Fund operations.

36. As regards the social sectors, he wondered whether it was humanly possible for the sole expert recruited by the Bank to undertake the many operational activities required in those sectors.

37. Furthermore, his authorities were eagerly awaiting Management's proposed evaluation of the Bank Group's policy-based lending operations and were expecting that the document would be available by July 1993.

38. With regard to WID, he observed that in spite of Management's avowed commitment to gender issues, the concept still had to be fully integrated into the country programming process and project cycle. He suggested that some WID experts be transferred to the country programmes and operations departments without necessarily dismantling the Unit.

39. The **REPRESENTATIVE of PORTUGAL** wanted to know if account was taken of project post-evaluation results for the design of new projects. Her delegation was also eagerly awaiting Management's assessment of the Bank Group's policy-based lending operations.

40. The **REPRESENTATIVE of the UNITED STATES of AMERICA** was also eagerly looking forward to Management's analysis of project quality with particular focus on the social sectors as detailed in the working document. Besides, he wished that Deputies could have the opportunity to discuss the environmental issues in detail.

41. He was of the view that several requests had been made to Management by donors or by the Board of Directors to undertake work or studies that were extremely labour intensive and time-consuming but not necessarily productive and urged that those requests be reviewed during the course of those negotiations. He felt that the Fund's scarce resources should be utilized only for very critical and relevant activities such as project quality, the environment, women in development and poverty alleviation. Streamlining the ADF's operational activities would result in more efficiency in meeting the development needs of beneficiary countries. He believed, for instance, that there was much duplication in the CSPs, EPCPs and other Fund performance evaluation documents.

42. With regard to the cost-sharing formula, he pointed out that his authorities would be more sympathetic towards a cost-sharing formula that would require additional effort from the Fund if it became evident that the Board of Directors was willing to demonstrate some

restraint in its own expenditures. He reiterated his authorities' concern about existing travel arrangements for Board members as well as other supposedly perceived requirements. In short, he would be more flexible on the cost-sharing formula issue when certain efficiency measures would have been adopted by Management to cut down on the Bank Group's administrative expenses.

43. The **REPRESENTATIVE of AUSTRIA** found it difficult to understand how negotiations could start on the Seventh Replenishment of the Fund's resources when in fact Management was still to submit a final report on ADF-VI, especially on the policy-based lending operations and the cost-sharing formula. According to the document under review, that report would be available in August 1993 and if the second consultative meeting was to be held in July, then the timing for the submission of the report should be reviewed by Management.

44. The **REPRESENTATIVE of SWEDEN** had some difficulty in accepting the wording of paragraph 2.2 concerning the Bank Group's policy paper on population given that his authorities had urged that certain issues be adequately reflected in the document including those on women in development, health, rural development and education.

45. He welcomed the country strategy paper and expressed the hope that immediate steps would be taken to operationalize the concepts developed therein.

46. The **REPRESENTATIVE of CANADA** recalled that an agreement had been reached during the Sixth Replenishment negotiations on the cost-sharing formula and wanted to know the status of its implementation.

47. The **REPRESENTATIVE of SPAIN** observed that although much had been achieved under ADF-VI, some ground still remained to be covered. He wished to know how Management intended to accomplish that before the effectiveness of ADF-VII.

48. The **CHAIRMAN** observed that a number of questions had been raised by Deputies and called upon Management to respond to them. Documents would be prepared on issues requiring more detailed answers and submitted at the subsequent meeting. In that context, the pertinent question raised by the Italian delegate on the Bank Group's first poverty alleviation project in Zambia as well as micro-projects being financed under the poverty alleviation initiative should be noted by Management.

49. Vice-President **LOUNES** agreed with the Chairman that some of the questions raised required detailed answers, which would be provided later.

50. With reference to the WID Unit, he confirmed that Board members had discussed the issue during the consideration of the 1993 administrative, operational and capital budgets but could not recall that a decision had been taken to dismantle the Unit. The decision was to redeploy some WID experts to various operations departments but at the same time retain the Unit for the close monitoring of the integration of gender issues into the operational activities of the Bank Group.

51. As far as the evaluation of Bank Group policy-based loans was concerned, the study had been finalized. The first draft report was being reviewed for submission to the plenipotentiaries at their forthcoming meeting. Although some Deputies had indicated that they would have preferred a comprehensive study of all the structural adjustment programmes financed until then, Management's decision to proceed on the basis of sampling was to save time and money. Deputies should, however, rest assured that every programme would subsequently be subject to the normal post-evaluation process.

52. The cost-sharing issue was also considered at length by the Budget and Administrative Affairs Committee following which the Boards decided that a study based on objective criteria be carried out to determine the burden shares of the respective institutions of the Bank Group. The request for the study could be explained by the fact that the various

parties concerned had different assessments of the impact of their operations on the overall expenditure budget of the Bank.

53. Mr. KARIISA (ADB), responding to the question on the possibility for Management to attain the TAF targets, assured Deputies that the projections made in the working document were backed by a list of concrete projects and indications as at that date showed that the various targets would be met, i.e. the commitment of FUA 94 million to project cycle activities and about FUA 6 or 7 million to institutional building related issues.

54. As indicated in the working document, Management was working on the poverty alleviation guidelines which, hopefully, would be completed during the course of the year. Management also intended to develop a training programme to enable operations staff to implement those guidelines as soon as possible. The same strategy was adopted for the WID and Environmental Guidelines and Policy Papers.

55. Furthermore, Management had issued a revised Operations Manual the previous month with updated information on the new areas of Bank Group operations. An important new element in the manual was the MPDE (Log Frame), which would keep track of all project objectives and targets. Management with time would be more systematic and analytical in the sections of appraisal reports devoted to the impact of projects on the environment and women.

56. The strategy used by Management to operationalize the various Bank Group policies was in three phases namely, the preparation of operational guidelines, organization of short but intensive training programmes to enable operations staff appreciate the mechanics involved and the incorporation of those mechanics into the Operations Manual.

57. The reference in the working document to the social policy expert was just meant to stress the fact that one expert had recently been recruited. That did not imply that he was

the sole available expert in that field Bank-wide. The expert in question was recruited as a complement to the existing manpower resources in the Central Projects Department, which was in charge of the formulation of Bank Group operational policies. In fact, the Department had an economist/statistician, a demographer, forestry expert and other experts in areas such as the environment and the social sectors.

58. The Vice-President had responded to the question on the WID Unit. He would, however, like to add that the Central Projects Department had the core staff for the conception of Bank Group development policies and procedures, while in the Bank the operations departments with equally qualified staff were responsible for the implementation of those policies and procedures as approved by the Boards of Directors.

59. Mr. FALL (ADB) responded to questions raised on the preparation and contents of economic reports (EPCPs) as well as country strategy papers (CSPs) and also to explain how Management had taken account of areas of particular interest such as women in development and poverty alleviation in the preparation of operational programmes.

60. With regard to economic reports, thirty-nine (39) EPCPs were being prepared and those concerning Liberia, Somalia and Zaire had been suspended in view of the prevailing political situations in those countries.

61. As far as country strategy papers were concerned, thirty-nine (39) had led to performance evaluations on the basis of which FUA 193 million had been reallocated. Ten (10) strategy papers were being prepared as a result of Management's various contacts with other donors as well as supervision missions undertaken with other co-financiers.

62. The above areas of particular interest constituted specific sections in economic reports and strategy papers, in the sense that they were currently considered as specific projects that would provide income-generating activities for the poor. The poverty reduction

projects approved that year by the Boards of Directors for Burkina Faso, Mozambique, Sierra Leone and Zambia were examples.

63. It was to be emphasized that women in development experts participated in field missions and the preparation of related project documents.

64. With regard to the volume of work of experts preparing those documents and the risk of effort duplication, Mr. Fall replied that economic reports contained more details than strategy papers since economic reports covered a period of three (3) years. The three-year perspectives were updated every year in country strategy papers prepared on yearly basis.

65. Performance evaluation was the element that differentiated country strategy papers from economic documents and it facilitated reallocations according to the ADF guidelines.

66. As to whether there was effective co-ordination with other donors, Mr. Fall replied in the affirmative and said that co-ordination was ensured at several fora including the public expenditure review missions jointly organized in member countries by all donors; verification missions to ensure that the conditions attached to tranche disbursements of structural adjustment loans were observed; meetings organized within the framework of the Special Programme of Assistance for Africa (SPA) during which an overall assessment of each country's performance was carried out to ensure that the new policy orientations as well as the reform programmes approved by all member countries of the SPA were complied with; and finally, the consultative group meetings at which the investment programmes proposed by the countries were examined so as to determine the volume of resources to be provided by the donor community.

67. With regard to technical assistance, the relevant projects essentially comprise three (3) components :

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- (a) administrative structure;
- (b) debt management;
- (c) human resource development through the detachment of experts to countries concerned and local staff training.

68. Mr. **OGUNJOBI** (ADB), responding to questions relating to improved loan quality, stressed in the first place the importance of measures taken by Management to improve the quality of all loan operations.

69. Those measures were at several levels, primarily at the level of country programming through improved quality of EPCPs and CSPs. Those documents preceded all the various phases of project cycle; there was the recent case of Ethiopia, where a general identification mission was only undertaken after the preparation and submission of an EPCP to the Boards in March 1993. In short, EPCPs were to a large extent synchronized with identification missions thereby providing the orientation for Bank interventions in RMCs. Besides, the project selection process had become a lot more rigorous than before.

70. Project implementation, supervision and loan administration were key elements for project success and Management had realized that there was complementarity between the follow-up and supervision missions. That was why it had intensified efforts to harmonize those two types of missions. Indeed, supervision missions were meant to resolve technical problems identified by follow-up missions in respect of projects encountering implementation difficulties that were subject to particular monitoring to prevent those difficulties from escalating.

71. Furthermore, the results of project performance and audit reports as well as project completion reports prepared by Management were being systematically taken into account in the conception and preparation of new projects. Project completion reports were examined by inter-departmental working groups before submission to the post-evaluation

department for action.

72. Project supervision responsibility had been assigned to regional offices on account of their advantageous locations vis-à-vis the Bank Headquarters. The offices had been strengthened with the recruitment of local professional staff who currently participated actively in project implementation follow-up together with Bank experts attached to those offices, thereby making it possible to detect implementation problems early.

73. Furthermore, as part of project identification and preparation process, the Bank had strengthened its co-operation efforts with various specialized agencies of the United Nations such as UNESCO, UNIDO, FAO and WHO which participated in the project cycle activities within the areas of their specialization.

74. Mr. RWE GASIRA (ADB), responding to the question as to whether account was taken of lessons drawn from previous replenishments, stressed that Management used the previous experience as basis for preparing various documents for the Deputies.

75. The ADF-VI guidelines had been generally observed and they would be entirely implemented by the end of 1993. It was, however, to be stressed that certain issues such as policy-based lending would still be valid and relevant under ADF-VII.

76. The CHAIRMAN, coming back to the issue of reducing work input in EPCPs and CSPs asked whether it would not be advisable to be content with country strategy papers in certain cases.

77. Mr. FALL stressed in his reply that certain chapters in those two documents were actually repetitive such as the six sections on the economic report, which were also found in the country strategy papers but in the form of a summary.

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78. It was obvious that merging those two documents into one would considerably reduce work and would also facilitate the consultation process.

79. The CHAIRMAN expressed satisfaction at the work done by Management in all the phases of the project cycle and, recalling the various issues considered, observed that the question of cost-sharing was still outstanding. It was therefore to be discussed for a decision to be reached to change or maintain the current formula.

80. Vice-President LOUNES (ADB), responding to the question on population, said that the Board of Directors had discussed the issue at length and that all the recommendations made thereon had been duly taken into account in the final document.

81. With regard to the post-evaluation of projects, the ideal approach would be to proceed with a systematic post-evaluation but the Bank did not have the means.

82. As far as the Bank's experience in policy-based lending was concerned, Management had carried out a study based on sampling for two reasons. On the one hand, the additional information to be provided by the study could not justify the costs involved in an exhaustive study. On the other hand, since that study had to be submitted during the ADF-VII consultative meetings, a detailed work could not have been done by the fixed deadline.

83. A cost-sharing formula had been agreed upon at the end of the ADF-VI negotiations but the issue had to be reconsidered by the Boards of Directors, given that the Bank was not represented at those negotiations.

84. The formula was considered by the Board of Directors during the 1993 budgetary discussions and it was decided to hire the services of a consultant.

85. The CHAIRMAN, pursuing the discussion on the item, pointed out that the Deputies had proposed a formula based on the volume of loans rather than on an absolute figure. The Board of Directors had decided not to apply that formula because it posed problems, given the Institution's net income level. The situation had led certain Deputies to feel that the Fund was subsidizing the Bank. He was, therefore, requesting Management to provide the delegates with a short note on the cost-sharing formula to enable them to discuss the issue and to take a final decision. Meanwhile, he suggested that consideration of the issue be deferred to a later date.

It was so decided.

86. The REPRESENTATIVE of SWITZERLAND, making general comments following Management's responses, observed that the arguments put forward were obviously very convincing but the only problem was that it was difficult to determine how the various measures adopted could really ensure an improved project cycle. Concrete information should, therefore, be provided on the effective incorporation of the country programming and strategy process into the pipeline of projects as well as the impact of that process on projects. Management should provide specific examples, two or three countries, where one could see how the strategy put in place had been translated into action.

87. If it was true that Deputies had been provided with several indicators on the various measures adopted by Management, they were still wondering about their effectiveness and quality.

88. The REPRESENTATIVE of FRANCE also thanked Management for the reassuring responses provided on current and future actions even though he would have preferred them to be more factual.

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89. Two issues had drawn his attention namely, the co-ordination between donors and country allocation.

90. He disagreed that co-ordination between donors was effective and efficient since from the point of view of France which was a donor that often intervened on a parallel basis with the ADB, the co-ordination with the Bank was not necessarily perfect. He would give as simple proof the fact that some projects were submitted to the Board of Directors for which effective co-ordination only came about when the first study showed that there were certain problems.

91. He agreed that country allocation was a complex issue.

92. He observed from documents submitted that some countries had largely exceeded their allocations. He therefore advised that the Board be informed at each session about the status of those allocations and that Management provide precise justifications for any country exceeding its indicative allocation.

93. The **REPRESENTATIVE of ITALY** wanted the list of countries that had benefited from adjustment programmes financed by the Bank Group and also requested Management to prepare a table giving figures on the status of commitments under ADF-VI and those on disbursements under previous replenishments as well as the geographical distribution of committed funds.

94. Besides, he wanted a legal opinion concerning particularly the legal basis for committing grants that had not been authorized by the parliament of the granting State Participant.

95. The **REPRESENTATIVE of CANADA** asked whether it would be possible to have a general evaluation of loans and to know the extent to which they reflected the policy

guidelines provided by the Deputies.

96. The CHAIRMAN proposed the following approach; in view of the various points raised, he would review certain issues with Management to determine those on which documents existed so that the said documents could be made available to delegates.

97. The question of co-ordination between various donors was very complex and constituted a thorny issue in almost all international organizations since interests were often conflicting for the mere fact that certain partners always wanted to play the leadership role. One thing that was, however, certain within the current international context was that it would not be easy to achieve anything if efforts were not well co-ordinated.

98. He, therefore, asked Management to prepare for the next meeting a short document indicating specific measures taken to ensure better co-ordination between the ADB and various other donors.

99. He requested Management to provide at that sitting some clarifications on the question relating to countries that had exceeded their allocations.

100. Vice-President LOUNES recapitulated the questions raised by the Deputies.

101. Mr. FALL explained that the indicative country allocations were based on the conclusions of the replenishment exercise, the performance assessment of countries, their absorptive capacity, the reform programmes chosen as well as the matrix for the comparative measure of performance. He pointed out, however, that the performance analysis was a progressive process.

102. The score could range from "poor" to "strong" performance. The countries that had performed better were given an additional 25% of resources over their normal

allocations, and those classified "poor" could have theirs reduced in the same proportions. But no country qualified for the "strong performer" score in that year.

103. The 1992 exercise resulted in the re-allocation of FUA 193 million. Moreover, the availability of exceptional contributions could lead to going beyond the 25% base mentioned above.

104. The **CHAIRMAN** suggested that the French delegate's question be taken up later.

105. The **REPRESENTATIVE of AUSTRIA** wished to know if the Board usually approved the over-commitments of allocated resources, or was merely kept informed of them.

106. The **REPRESENTATIVE of JAPAN** wanted to know when the report of the committee created for portfolio quality improvement would be available.

107. Mr. **FALL** explained that the indicative programme was communicated to the Board in the budget document and reproduced in the EPCP and CSP documents. But insofar as the specific cases of over-commitments were concerned, they were brought to the attention of the Board during the subsequent grant of credits to the country concerned.

108. The **CHAIRMAN** asked if there were any reasons for such a procedure.

109. Vice-President **LOUNES** conceded that the slippages had to be justified before the Board. Nevertheless, one should recognize the fact that the late approval of the ADF-VI had introduced some distortions into the programme, with the approval occurring after projects had been committed. Moreover, there could be no guarantee that the initial allocations would meet all the needs.

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110. In conclusion, he stated that there was provision in the working procedures to inform the Boards, though some flexibility was necessary.

111. The **REPRESENTATIVE of FRANCE** stressed that an effective flow of information between Management and the Board was essential. The problem of providing the Board with good information must be definitively resolved. In that connection, it was regrettable that Executive Directors knew almost nothing of what was going on about country allocations, one of them having had to calculate himself before discovering that, as at 31 December 1992, there were nine over-commitments ranging between 120% and 130%, without prior justification to the Board.

112. He made it clear that it was not the principle of over-commitments that was in question, but the justification for implementation.

113. The **REPRESENTATIVE of AUSTRIA** also recognized the need for flexibility, but felt that the Board should be fully informed beforehand about over-commitments.

114. The **REPRESENTATIVE of the UNITED KINGDOM** thought that the focus on overruns had mistaken the nature of the discussions. During the ADF-VI negotiations, the Deputies had tried to move away from the system of allocation previously operated in the Fund when, on the basis of a mechanical formula, indicative planning figures had been regarded virtually as an entitlement for the country concerned. The system that had been set up under ADF-VI was based on the scarcity of concessional funds and performance, with an initial indicative planning figure and a clear understanding that it would be Management's responsibility to review the recipient's performance annually. The strong performers would be entitled to increased resources and the weak performers would go into a core programme status. It had been expected at the time that the outcome of the system would only become clear after completion of the three-year cycle of ADF-VI. Nevertheless, at the present mid-term stage, one could verify how things were shaping out.

115. Against the above background, he shared some of his French colleague's concerns because it was not immediately clear how the evolution of allocations of ADF-VI matched with some of the performance assessments under SPA. In that connection, he did not share the statement in paragraph 3.5 that the number of countries judged to be performing satisfactorily was approximately the same as for SPA. He, however, recognized the fact that it was difficult to demonstrate transparency in those circumstances and that the system was yet to prove itself.

116. The **CHAIRMAN** enjoined Management to inform the Board before exceeding country allocations, and not after doing so.

117. The **REPRESENTATIVE** of **ITALY** asked for a clarification of the nature of the current meeting. In his opinion, it had no bearing on the information to be provided to the Board of Directors but rather on the allocation of resources.

118. The **CHAIRMAN** suggested that the afternoon sitting should start with the consideration of the cost-sharing formula.

It was so decided.

The sitting was suspended at 12.30 p.m. and resumed at 2.30 p.m.

COST-SHARING FORMULA

119. The **CHAIRMAN** recalled that the Representative of Canada had alluded to paragraph 43 of the Report on the Consultative Meetings of the Sixth General Replenishment of Resources of the African Development Fund (document ADF-VI/CM.5/91/54/Rev.6) dealing with the cost-sharing formula.

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120. Vice-President **LOUNES** indicated that Management had submitted a report to the Board of Directors on the series of consultative meetings of the ADF-VI, particularly on the adjustment of the cost-sharing formula proposed by the ADF-VI Plenipotentiaries. The Board had taken note of the report and deferred the decision to the time of the 1992 budget discussions.

121. There had been no Board consensus at that time on the costs generated by the new policies of the ADF. Besides, there were more ADF projects than ADB projects in the Bank Group's work programme, especially the more relatively costly small projects.

122. The Boards had consequently decided to defer their discussions to the 1993 budget deliberations while maintaining the existing formula. As a consensus had still not been worked out in Autumn of 1992, it had been proposed to employ the services of a consultant.

123. The **REPRESENTATIVE of NORWAY** indicated that the Plenipotentiaries had laid emphasis on the burden of administrative expenses which the Board had not been able to control. In 1992, 60% of the Group's administrative expenses had been charged to the ADF. The issue, therefore, concerned both the sixth and the seventh replenishments of resources.

124. He added that the level of contributions to the seventh replenishment would depend on the implementation of the decision of the Deputies for a reduction of the administrative expenses of the Group.

125. The **REPRESENTATIVE of JAPAN** enquired if Management had commenced the search for the consultant whose work was to be financed through bilateral co-operation.

126. The **REPRESENTATIVE of GERMANY** supported his Norwegian colleague's statement.

127. The **REPRESENTATIVE of FRANCE** endorsed the Japanese delegate's question.

128. The **CHAIRMAN** observed that the critical issue was how to devise a mechanism for an equitable sharing of costs. That should be the consultant's terms of reference. He suggested that if the Netherlands and Management could work out the financial details, the existing bilateral aid of the Netherlands could be used to fund the recruitment of the consultant, who should complete his task at the earliest possible time, preferably before the subsequent meeting in July 1993.

129. Vice-President **LOUNES**, on behalf of the Bank Group President, thanked the Chairman for his offer. Management would prepare the estimated costs of the consultancy service and discuss them with the Dutch delegation.

130. The **REPRESENTATIVE of the UNITED STATES of AMERICA** said that all State Participants liked to demonstrate some flexibility in paying the legitimate and appropriate costs of maintaining their development institutions. He expressed the view that the manner in which money was spent as well as the political support for the Fund were far more important than any mechanical cost-sharing formula between the Bank and the Fund.

131. Recent world-wide press reports showed that a special attention was being directed to the cultural habits of some of the international organizations. It was becoming increasingly difficult to raise funds for those institutions in the midst of such reports and patterns of behaviour, such as the use of first-class tickets against which he had spoken in the past. It was difficult to make a linkage between the tax payers wishing to help the poor to develop in Africa and the achievement of the primary goals of institutions practicing first-class travel. It was imperative that money was spent in the most judicious manner.

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132. Nevertheless, his delegation shared the concern for a transparent and equitable cost-sharing mechanism.

133. The **CHAIRMAN** drew attention to the emergence of uniform practices in the different international institutions because public opinion and parliaments, to cite only those, were becoming increasingly critical.

134. The **REPRESENTATIVE** of **DENMARK** expected that the questions raised in connection with the cost-sharing formula would be clarified during the subsequent discussions.

POLICY ISSUES UNDER ADF-VII (Agenda item 4)

STRENGTHENING OF CURRENT POLICIES IN THE ADF-VI PERIOD

(a) COUNTRY ALLOCATION AND PERFORMANCE (ADF-VII)

135. Mr. **FALL** said that there was not much to be added to what had been said earlier that morning except to speak about the results of the performance evaluation. The two Country Programmes Departments, on the basis of missions and the results of the various fora (SPA, etc.) carried out the assessment according to the six major performance indicators weighted as set out in Annex I to the document under discussion. The results were submitted to the Central Projects Department for final classification and ranking of the countries concerned.

136. Allocations or reallocations were then made on the basis of the percentages which he had mentioned earlier, i.e. additional 25 per cent for performer countries, the average performers retained their initial indicative lending levels, while those performing less adequately had their indicative lending levels reduced by a maximum of 25%.

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137. The **REPRESENTATIVE of DENMARK** was struck by the modest magnitude of the reallocation, representing nearly 1.1% of the resources. He wondered whether that fully reflected the differences in performance among the recipient countries. The basic principles laid down under the ADF-VI and the Performance Indicators in the Annex seemed sound and reasonable in theory, but the weight (2%) allocated for good governance was rather low. On the whole, the system had been applied with excessive caution. That attitude was understandable, to some extent, at an initial stage, but one expected more re-allocations to be made in future.

138. The **REPRESENTATIVE of BELGIUM** recalled that substantial discussions had taken place on the issue that morning. He stressed the need to be able to demonstrate transparency in the implementation of the criteria for performance assessment however complex they might be. One of the ADF-VII's objectives should be to refine and enhance the criteria and apply them in the most transparent manner. An examination of the respective country allocations and the reallocations, particularly the surprising results, suggested that the underlying rules were not always clear. The Board of Directors could be held partly responsible for the default in terms of provision of information in that respect.

139. As for the working document, he thought that it was quite interesting in some respects, although it resembled an operational manual setting out the general principles rather than the practical effects of the criteria. Hence, instead of providing answers to their concerns, it prompted new questions from the Deputies. For instance, he disagreed with the statement in paragraph 2.2 that the practice of cancelling loans had been "more frequent" under ADF-VI. At the end of paragraph 3.5, it was stated that "The exercise is as objective and as transparent as possible, while great discretion is maintained given the sensitivity of the decisions to be made". While conceding the sensitive nature of the exercise, he feared that excessive discretion ran counter to the principle of transparency, and might even lead to arbitrary action. Furthermore, he would like to have further clarification of the manner in which the reallocation of FUA 193 million mentioned in paragraph 3.4 had been effected

as well as about the term "African specificities" in paragraph 4.1 which sounded nebulous.

140. Finally, for those conversant with the problem of determining repayment obligations, he was concerned about the likely disproportionately high costs, and the limited possible results of the proposal in paragraph 4.3 "to work into the programming documents a profile of the repayment obligations of borrowing member countries, both to all creditors and to the Bank Group and particularly highlighting the latter".

141. The **REPRESENTATIVE of the NETHERLANDS** discerned significant improvements in the operational practices of the Bank and the fact that Management was moving in the right direction. His delegation's problem about paragraph 2 (Programme Articulation and Performance Evaluation) stemmed from the failure to distinguish clearly between what should be the routine practice in the Bank and the reinforcements introduced in compliance with the wishes expressed during the sixth replenishment negotiations. It was very difficult to evaluate the progress made without more detailed information.

142. In that connection, the statement in paragraph 1.1 of the following document entitled "Enhancing Loan Quality" that "many of the improvements proposed revolve around a more rigorous application of existing procedures and practices" warranted detailed explanation of the reasons for not adhering to those procedures.

143. Instead of talking of new procedures and policies, the discussion should centre on changing the incentives or the information given to the Board of Directors and the donors in order to determine what was going on. Management had to take several actions throughout the project cycle, ranging from design to country programming, and it was really difficult for donors or the Board of Directors to keep track of what was happening. He suggested, therefore, that Management should set up an information system to monitor both the country programming and project implementation stages, and make it possible for the Board of Directors to ascertain adherence to the laid down instructions.

144. As regards performance-based lending, he probably had a more positive view of what was going on than his Danish colleague. He suspected a typing error in paragraph 3.4 where the redistributed amount ought to read 11% instead of 1.1%. That percentage represented a fairly substantial result, though it could be improved upon in future. It was, nevertheless, disappointing that almost half of the sum of FUA 193 million which became available for redistribution was taken away by over-commitments and multinational projects, leaving only FUA 102 million to the best performers. He asked Management, therefore, if there were no better ways of allocating resources for such commitments.

145. Performance indicators should reflect policies and not outcomes. For example, macro-economic management consisted of policy outcomes which were very difficult to influence by policy actions given the fact that the real GDP growth and exchange rate index were subject to considerable external factors.

146. He applauded the inclusion of good governance but felt, like the Deputy for Denmark, that the corresponding weight was too low. The level of military expenditure in relation to social expenditures should form part of the criteria for governance. The environmental category clearly needed to be elaborated upon because the only item under it - "National Environmental Assessment Plan" - was incomprehensive.

147. The **REPRESENTATIVE of SPAIN** expressed the view that the paper ought to have been analytical and look less like a manual. Country performance assessment was a matter of judgement, but to have as much as 30 countries performing satisfactorily seemed unrealistic and inconsistent with the general picture of the depressed economies of Africa.

148. He subscribed to the views of the Dutch and the Danish delegates on good governance. The weight of 45% assigned to macro-economic management was too high insofar as the ADF was concerned, though it might be more relevant to the ADB. For ADF, the weight for macro-economic management should be lower and that for poverty alleviation

and social policy higher.

149 The **REPRESENTATIVE of the UNITED STATES of AMERICA** approved Management's efforts in moving resources to countries offering the best environment for their constructive use. His delegation recognized the move as quite courageous, for an institution like the ADB, reinforcing the essential understanding of the relationship between the Bank Group and its shareholders. Annex I (Country Strategy Paper Performance Indicators) contained a very comprehensive set of criteria and reasonable guidelines for proceeding forward. He shared his Dutch colleague's stand that additional emphasis be put on the issue of military expenditure in future. As his Governor had indicated in his formal address to the Annual Meetings, the United States encouraged the Bank's continued active participation in the SPA which was an essential instrument for mobilizing funds for poor African countries.

150. The **REPRESENTATIVE of SWITZERLAND** deemed the Bank's efforts laudable and in the right direction. All the criteria enumerated for performance assessment should be viewed in the context of progress. He, however, agreed with the Belgian delegate's view that most of the proposals in the paper were more theoretical than concrete. The weight allocated to environmental issues (0.05%) was too low, but military expenditure had presumably been taken into account. Although the 2% assigned to governance appeared low; he was not unduly worried by it since the concept appeared in other preceding criteria. The 45% and the 20% allocated respectively to macro-economic management and poverty alleviation seemed excessive and left out certain significant elements necessary for development policy assessment.

151. Lastly, his delegation appreciated the Bank report on human resources development, but required further details about the implementation of the principles enunciated therein.

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152. The **REPRESENTATIVE of the UNITED KINGDOM** endorsed the previous speakers' reservations about the narrow definition of sustainable environment assessment issues. He registered his concern that since the first three indicators (A, B and C) were meant to be the chief basis for measuring allocation, the weight given to environmental issues should have been higher than 5% while that for the Bank Group portfolio should be less.

153. The **REPRESENTATIVE of FRANCE** stressed that his delegation attached considerable importance to the present discussion. It was essential that the criteria being laid down for the commencement of ADF-VII be applied in utmost transparency. France considered it fundamental for the Board of Directors to be provided at all times with all the necessary information to enable it to decide on the smooth application of the criteria. In that context, he strongly supported the questions addressed to Management by the previous speakers. With particular reference to Belgium's enquiry about paragraph 3.3, he felt that undue importance should not be given to the issue of discretion and sensitivity. He was certain that his country's Executive Director, like his other colleagues, was perfectly aware of the confidentiality of his duties, and saw no reason why Executive Directors should be denied country performance assessment documents.

154. The **REPRESENTATIVE of CANADA** found the paper on performance indicators very useful, and assumed that it was beneficial for the Bank Group to conduct dialogue with the beneficiary member countries in order to review and encourage improvements in their country performance. He shared the opinion that the indicators should be regularly reviewed and that more weight should be given to sustainable environmental issues and governance.

155. The **CHAIRMAN**, concluding discussions on the item, observed that the Deputies had raised several important issues for reflection by the Bank staff over the coming period. The Deputies clearly considered that Management's efforts were on the right track in connection with the country performance indicators. Three major points had emerged from

the discussions:

- (1) some of the indicators were deemed either to be on the lower or the higher side: the percentage for sustainable environmental issues was low; the use of national environmental assessment plan was too restrictive a base for performance assessment;
- (2) the widespread discussion on good governance pointed to the importance of relating military expenditures to social expenditures under the category of good governance. The issue was not limited to Africa, as Deputies were frequently confronted with it in their own countries;
- (3) a common theme in nearly all the interventions was the relative importance of discretion in an institution like the ADB Group and the extent of discretion in the face of the need for providing information to decision-making Board of Directors. Given the fact that the matter had been discussed in the Hague and a right balance had to be struck, the Bank staff should get in touch with their World Bank colleagues with a view to proposing different alternative solutions for consideration at the subsequent meeting. His own prescription was to recognize the necessity for providing Executive Directors with the necessary information on a timely basis, not to be too secretive, and to resort, where appropriate, to the use of coded messages for security reasons.

156. He too would be interested in the clarification of the phrase "African specificities" as used in paragraph 4.1.

157. Spain had advocated that more attention be focused on poverty alleviation than the outcome of policies which was determined by outside influence.

158. He invited Management to look into the foregoing issues and come back with a short explanatory note for further discussion at the subsequent meeting.

159. Vice-President LOUNES stated, firstly, that Management's view was that the Annex on performance indicators represented an initial approach, it was expected to evolve, and should not be seen as a straitjacket. Management had endeavoured to translate the concerns of the Deputies, taking into account different factors not necessarily based on strictly objective criteria. Secondly, concerning the question of discretion and the need to strike a balance between the legitimate need for information and transparency on the one hand, and the necessity for dependable dialogue with the recipient member countries on the other, Management would reflect on the matter and try to devise an appropriate formula responding to the two concerns.

160. As for environmental issues, he explained that the national environmental plan was mentioned because it afforded a complete picture of a country's perception of and commitment to environmental concerns.

161. Regarding governance, as stated by the Belgian delegate, it was a horizontal notion seen in all the other criteria. The question of military expenditure had not been ignored, he conceded that it was encapsulated in the phrase "expenditure going to social sectors" the assessment of which covered the impact of non-productive expenditure on overall development.

162. In conclusion, he took note of the comments made by the Deputies and assured them that Management would take them into account in improving the performance indicators.

163. Mr. FALL added that the aim of the document was to elicit the views and suggestions of the Deputies. Management had, therefore, taken due note of the foregoing

discussion. He pointed out, however, that it was desirable to use common and easily identifiable terms in such an exercise. The period for developing the analysis was 5 years before the assessment date. Projects presented thereafter usually included a chapter on a review of the country's economic situation and the progress made with regard to the newly approved policies.

164. The phrase "African specificities" could be explained by the fact that there were parameters which were nearly exclusively applied to Africa just as good governance was now set within the African context.

165. He recalled, in connection with the issue of information, the indication given in the Hague that a means would be devised for providing Executive Directors with Country Strategy documents, embodying the results of the analysis but without the figures and indicators used in arriving at the results.

166. The CHAIRMAN envisaged that the issue could be reverted to at the subsequent meeting on the basis of the new documents to be presented by Management. Given the nature of the discussions on the issue both at the Hague and at the current meeting, as well as the decision-making structure of the institution, there was really no justification for undue caution about the provision to the Board of figures which were already available in the loan documents.

ENHANCING LOAN QUALITY (ADF-VII/CM.1/93/04) (Agenda item 4.1(b))

167. Mr. OGUNJOBI, after recalling the answers given earlier that morning on the rigorous application of the internal procedures for enhancing loan quality, assured the Deputies that project quality and loan performance were issues of primary concern to the Bank Group. Thus, Management was constantly making efforts to strengthen the existing procedures and to introduce new measures to improve the quality of lending operations.

168. For instance, the quality of the EPCP was being improved through links with the various identification missions. It was now possible to draw up an annual lending programme from the 3-year rolling programme. More staff and consultancy resources were being assigned to supervision. Relations with specialized institutions had been expanded. More responsibilities had been delegated to the Representation Offices. Country operations were systematically reviewed so as to re-adjust or re-orientate projects as appropriate.

169. Staff training had been detached to the AHRM Department from the Training Centre to enable the latter to concentrate exclusively on the training of regional member countries' officials, thereby strengthening their project preparation and processing capacity.

170. In a fresh effort, the President had set up a committee of senior staff to study ways and means of further improving the quality of Bank Group loans. The outcome of the exercise would constitute a vital element in the improvement of project quality under ADF-VII.

171. The **REPRESENTATIVE of GERMANY** said that he had read the paper with considerable interest. It seemed more like an abstract description of an ideal system of project preparation. Were that the reality, the African Development Bank would be the most wonderful institution in the world. The paper lacked data about the reality, the type of evidence that could only be obtained if a proper and systematic post-evaluation system, setting forth the rate of success or failure of operations, were in place. There should be a post-evaluation department, clearly independent of Management and reporting directly to and supervised by the Board of Directors, with sufficient capacity to examine a large number of completed projects to enable it to provide reliable statistical evidence. The percentage of evaluation required was debatable, the World Bank had an evaluation ratio of 45% of all completed projects. Without a sufficiently large sample of completed projects subjected to post-evaluation by an independent body, there was no basis for determining whether the system described in the paper was working well.

172. The **REPRESENTATIVE of SWEDEN** fully endorsed the last speaker's concerns and urged the Bank Group Management to give them serious consideration.

173. Referring to paragraph 2.2 (Preparation of EPCPs and CSPs), he pointed out that the paper merely described the situation whereas the actual country strategies were not that thorough. That problem put in question the real objective of the exercise. Nor was the necessity for a high degree of coordination between bilateral and multilateral donors in the preparation of the EPCPs fully reflected in the paper.

174. Furthermore, implementation should receive increased focus together with an incentive structure in the Bank. That was why, in her formal statement to the Annual Meetings, she had enjoined MBDs like the ADB to move from the culture of project approvals to that of implementation.

175. The **REPRESENTATIVE of CANADA** was of the opinion that an appropriate framework for country programming was important to enhance loan quality. He endorsed the comments made by previous speakers about Economic Prospects and Country Programming Papers (EPCPs) and Country Strategy Papers (CSPs) made available to the operations departments. Nevertheless, he noted that the document under consideration did not outline how evaluation contributed to the enhancement of loan quality and how lessons drawn from project performance evaluation were utilized.

176. Referring to paragraph 4.3, he wished to obtain further information, on the one hand, on the Committee of Senior Bank staff entrusted with the study of ways and means of improving the quality of Bank Group loans, its terms of reference and, on the other hand, the deadline set for the completion of its task.

177. The **REPRESENTATIVE of SWITZERLAND** believed that the document submitted would engage the attention of the delegates during that meeting and forthcoming

ones, because it played a key role as regards the quality of the Bank Group's project portfolio. However, referring to paragraph 2.8, he expressed the wish to continue with the relevant analysis made by the delegate from France on co-ordination. Recognizing the efforts made in that area, he believed that better co-ordination was that which took place at the local level when a project was identified.

178. In his view, identification missions should, in addition to their usual co-operation with specialized ministries, donors, NGOs and operators, seek assistance from UNDP which, unlike the Bank, had offices in several countries. He shared the viewpoint of the French delegate that one should not wait until a project which had gone through all the procedural stages was submitted to the Board before requesting its withdrawal. Measures should be taken beforehand to avoid slippage. He would like to have clarifications on the Bank's future policy on that subject.

179. Without questioning the importance of evaluation a posteriori, he preferred the evaluation conducted simultaneously with project implementation. Supervision missions should not only be concerned with the continuation of the project's initial plans, but should also be able to propose measures to be taken to redress the situation or effect changes where necessary. Consequently, he would like to know the flexibility given to the existing mechanisms with a view to effecting necessary changes to projects.

180. The **REPRESENTATIVE of DENMARK** was of the opinion that an independent evaluation system was of vital necessity. The objective of the evaluation department should not only be the recording of the percentage of projects implemented in a satisfactory manner but also the direction of the operations departments with regard to project quality. That aspect, which was not developed in the document was the basis of the Wapenhans report. The task force which would be constituted should take that exercise seriously and be very critical vis-à-vis the Bank in order to achieve the expected results.

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181. He expressed satisfaction at the measures contained in paragraph 2.6 on the preparation of EPCPs and CSPs and hoped that the set objective would be achieved as soon as possible.

182. The REPRESENTATIVE of the UNITED STATES of AMERICA stated that the problems encountered were not specific to the Bank Group but were common to all development institutions. Furthermore, the ADF was operating in a fairly challenging environment and he commended Management for the untiring efforts made. Nevertheless, he expressed his country's concerns about project quality. Statistics were kept by experienced technicians on the number of projects supported by the United States of America at the Board of Directors, and on those to which they opposed or from which they abstained. That analysis revealed that an increasing number of projects were not satisfactory. Faced with such a disturbing situation, it was worth questioning ourselves during the present negotiations on the type of projects that the ADF should be able to finance and in a most successful manner or the sectors on which it should focus its efforts, particularly the social sectors or infrastructure. Through such a choice, the ADF would leave the other sectors to Governments and other bilateral and multilateral agencies.

183. The time when the withdrawal or cancellation of a project was considered a failure was past. Mentalities had changed and it was rather the failure of a project which was of concern. Hence, it was essential to establish flexible rules which would make it possible to intervene on time in order to modify, adapt or cancel projects which faced problems and were likely to fail. The idea of wanting to approve a large number of projects each year should not be uppermost in view of the scarcity of available resources. It would be prudent to take stock so as to reconsider the objectives and the needs of the continent. The evaluation and supervision procedures should be reviewed and operational sectors identified with a view to achieving the best results. The ADF could contribute effectively to Africa's development but that called for the use of a critical mind to make it more effective.

184. The **CHAIRMAN** considered very pertinent the remarks made by the US delegate about the definition of ADF priorities and sectors of operation. Those elements could serve as a basis for the ADF-VII negotiations.

185. The **REPRESENTATIVE of AUSTRIA** subscribed to the statements made by the previous speaker. Like the delegate from Switzerland, she believed that supervision and monitoring of on-going projects should be areas of focus. Project completion reports and post-evaluation reports were useful but lessons to be drawn arrived too late to enable on-going projects to be adjusted. She urged Management to reinforce the project supervision and monitoring mechanism put in place.

186. The **REPRESENTATIVE of the UNITED KINGDOM** recalled that during the ADF-VI negotiations, emphasis was laid on the need for complete information to be provided to the Board in the form of project briefs and quarterly summaries of projects in the pipeline. If significant progress had been made on the project briefs, the same was not true for the quarterly summaries, which were published in a sporadic manner. Given the views expressed for a more participatory approach to development, it would be appropriate for Management to improve the publication period of the said quarterly summaries.

187. The **REPRESENTATIVE of FRANCE** believed that, on the question of enhancing project quality, ADF-VI had prepared the grounds for Management to work constructively in such a way that it did present an appropriate conceptual framework as indicated in the document under consideration. Nevertheless, he subscribed to the statements made by the delegate of the United Kingdom that great efforts had been made in the area of information but a lot remained to be done. He assured Management of his country's support for the implementation of decisions which would be made in that area.

188. With regard to co-ordination, he believed that that circle of exchange of experiences should not be limited to United Nations agencies alone as mentioned in the

document but should also be extended to important donors in Africa, be they bilateral or multilateral and both in the area of project identification and supervision.

189. He considered the work done by the Projects Evaluation Office to be very important. Such an evaluation should be permanent and should forestall hasty remedial actions. Efforts to conduct an objective evaluation should be made jointly with the Board of Directors. His country was ready to support Management with respect to measures which would be taken to constantly improve co-ordination and audit procedures, but he wished that everything would be done in transparency.

190. The **REPRESENTATIVE** of the **NETHERLANDS** pointed out that enhancing project quality should not involve more studies, formulation of new strategies and staff redeployment. The German delegate had laid emphasis on elements needed namely, increasing post-evaluation and enhancing the quality of strategy papers. To make it more practical, he supported the idea of combining EPCPs and the CSPs into a single document as proposed by the United Kingdom delegate. He expressed concern about the involvement of sector experts in the preparation of strategy papers. He was afraid that instead of guiding the Fund's activities, that instrument might be transformed into a manual for defining priorities and sectors. He believed that the objectives of projects should be redefined so as to make them consistent with those of the Bank.

191. The **CHAIRMAN**, summarizing the discussions, drew attention to the main points developed by the delegates. They were, amongst others, post-evaluation, a continuing evaluation process and autonomy for the Evaluation Unit. Comments were made on EPCPs and CSPs and the possibility of merging the two documents into a single one. The importance of extended co-ordination was also highlighted. Given the many and varied problems facing projects in Africa, concerted efforts were indispensable. A well-organized co-ordination system would help forestall below-standard performance.

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192. The various remarks made, including the proposal by the US delegate on the choice of projects to be financed and the sectors in which the ADF could concentrate its efforts would be discussed in detail during the subsequent meetings.

193. Vice-President **LOUNES** (ADB), reacting to the questions raised concerning co-ordination and the Committee which would be constituted, believed that co-ordination between the ADF and the various donors operating in Africa was a factor for both parties to achieve efficiency. Nevertheless, co-ordination should not be unilateral, efforts should be made by all parties concerned towards an integrated approach. Management shared the viewpoints expressed and would do its best to enhance co-ordination.

194. Concerning the terms of reference of the independent Committee which would be constituted to study the quality of Bank Group project portfolio, he stated that a draft of the said terms of reference had been prepared but was not published because the high level personality who would be entrusted with the chairmanship of the said Committee had not been identified. It was possible ~~that once~~ the choice was made, that person might probably bring some improvements to the terms of reference. Nevertheless, the President of the Bank hoped that the task force would submit its conclusions towards the beginning of the subsequent year.

195. Mr. **OGUNJOBI** (ADB), speaking about co-ordination, pointed out that the Bank was in contact with almost all the bilateral donors. Specific instructions were given to mission members who went to the field to hold discussions with other donors and it often happened that an aide-memoire was prepared at the end of the discussions. In countries where the Bank had regional offices, Resident Representatives were generally members of the local donor representatives and they participated actively in the discussions held by those donors. It should also be stressed that the co-ordination with the UN agencies did not only concern co-financing but also included co-operative arrangements to improve the quality of the projects through their expert contribution in project preparation and appraisal.

196. With regard to post-evaluation, he stated the relevant reports were considered in Board committees and sometimes at full Board meetings.

197. Mr. MERGHOUB (ADB), subscribing to the points made by the previous speaker, added that in addition to the project completion reports and the post-evaluation reports, the Evaluation Department prepared a document on the overview of audited project findings aimed at enhancing project quality.

198. The Office of the Internal Auditor, an organ which, to his knowledge, was unique to the Bank Group, also undertook the auditing of disbursements and procedures for the procurement of goods and services. The audit report would serve as a useful tool for the operations departments.

199. Aware of its shortcomings, the Bank Group appreciated the suggestions made to it and had drawn lessons from the Wapenhans report in order to determine the best way to supervise projects without substituting itself for the borrowing countries or the executing agencies. The reduction of the volume of the operational programme to focus on project implementation would not raise any major problems for Management.

200. The **REPRESENTATIVE of FRANCE** stated that he was concerned about the last part of paragraph 3.10 which stipulated that "the Bank Group portfolio would be regularly reviewed in order to expedite remedial actions that may be taken with a view to bringing on course the smooth implementation of the projects or their reformulation to obtain maximum benefits". He was afraid that the expression "reformulate them to obtain maximum benefits" might give rise to some hasty remedial actions or the desire to preserve, at all costs, projects whose evaluation would have shown that they did not suit the needs and objectives of the country.

T/MP

201. There was a pitfall which the Bank Group should avoid and that was to consider a project which had been approved by the Board as a financial package to which the country was automatically entitled. Consequently, even if the project in question should be reconsidered, other solutions should be worked out to enable the country to spend the equivalent amount. He believed that project concerns should not be mixed up with those of a financial package. In a case where a project had to be reformulated following a review by Management, the decision should be taken in all transparency and in collaboration with the Board of Directors.

202. Mr. OGUNJOBI (ADB) took the floor to clarify a misunderstanding which, in his view, surrounded paragraph 3.10. He specified that the reformulation at issue was what took place during project supervision. When an expert from the Country Programmes Department identified a problem project, a technical mission was called upon to discuss with the Government in order to try and resolve the problem. If that required the reformulation of the project, it was done taking into account the changed circumstances. It was in the course of implementing the project that adjustments were made to ensure that the set objectives would be achieved. No reformulation was done after post-evaluation.

203. The CHAIRMAN, echoing the concerns repeated several times by the French delegate, stated that any changes likely to be made to a project during implementation should be submitted beforehand to the beneficiary country and the information should be passed on to the Board. The world being small, it would be wiser for Board members to receive the necessary information from Management rather than obtaining them from elsewhere.

204. Vice-President LOUNES (ADB), whilst recognizing the logic in the French delegate's point of view, stated that the Bank, as pointed out by several delegates, would endeavour to draw lessons from the supervision of on-going projects. Where there were minor difficulties to be resolved, measures would be taken in collaboration with the beneficiary Government. But where there were major problems which required considerable

adjustments, instead of rushing to take a remedial action, the project would be resubmitted to the Board in accordance with an internal procedure.

205. Mr. MERGHOUB (ADB) pointed out that a progress report on all on-going projects in a borrowing country was prepared as soon as Management submitted a new loan request from that country. The lending specificities were stipulated in the loan agreement signed by the two parties and Management was not at liberty to change a project significantly without being called to order by the Legal Department. It was not possible to change an agricultural project into an irrigation project overnight on the grounds that it was facing difficulties. Management could not make such changes without bringing them to the attention of the Board. Only minor adjustments which enabled the project to achieve the set objective were made in agreement with the authorities of the country concerned.

The meeting was adjourned at 4.55 p.m.

T/MP

PROVISIONAL SUMMARY RECORDS OF THE SECOND SITTING

held at the Salle des Fêtes, Palais des Congrès Hôtel Ivoire
in Abidjan, Côte d'Ivoire, on Saturday, 15 May 1993 at 9.05 a.m.

POLICY ISSUES UNDER ADF-VII (Agenda item 4) (continued)

**ENVIRONMENT : IMPLEMENTATION OF THE GUIDELINES AND
PROGRAMMES (ADF-VII/CM.1/93/05) (Agenda item 4.1.(C))**

206. Mr. KARIISA (ADB) stated that the paper attempted to summarize the status of implementation of the environmental guidelines particularly for training, the progress of screening on the various projects and the environmental impact assessments (EIAs). He indicated the progress so far made by Management and further improvements that could still be made particularly in the phasing in and catching up with the preparation of EIAs.

207. The paper also articulated the close linkage between poverty alleviation and environment and Management's intention to use Economic Prospects and Country Programming Papers (EPCPs) and other economic and sectoral studies as vehicles for enhancing the focus on those critical operational areas. Through bilateral assistance, a pilot programme had been launched on country poverty profiles and country environment profiles.

208. The paper further outlined the outlook on future activities, particularly the resource implications of the Rio agenda and enhanced environmental planning and programmes. It provided a purely illustrative aspect of the resource requirements but argued for additional Fund resources to prepare and implement appropriate environmental planning and programmes considered essential for increasing the absorptive capacity of member countries. Indicative figures and multipliers from regional member countries which had executed the National Environmental Action Plans (NEAPs) were indicated.

D/MP

209. Finally, the paper highlighted the study of an African Environmental Project Preparation Facility (AEPPF), which was a concept initiated jointly, following the Rio Summit, by the ADB, the ECA and the World Bank, with the aim of providing an additional, value-added funding mechanism to the existing structures to enable member countries to begin to implement the post-Rio agenda.

COMMENTS AND OBSERVATIONS

210. The **REPRESENTATIVE of SAUDI ARABIA** referred to page 3, paragraph 2.1.1 of the English text and requested clarifications on and justifications for the activities carried out by short-term consultants.

211. Furthermore, he wanted to know whether the staff strength of twelve (12) in the Environment Unit was adequate and proposed the conduct of an exercise with other sister institutions to determine the adequacy of the manpower resources of that Unit.

212. Finally, referring to the thirty-three (33) projects that had been classified as Category I, he asked whether there were other cofinanciers and what their assessments of those projects were.

213. The **REPRESENTATIVE of BELGIUM** noted with interest that the document reflected the nature and scope of the Bank's determination to embark on the new area of environment.

214. He made four observations; firstly, that the proposals were in the right direction, particularly with regard to the classification of projects into three categories and would even appreciate the establishment of a different category having an active approach for projects aimed directly at the improvement of the environment.

D/MP

215. Secondly, he stressed the important contribution African NGOs had made despite the inadequacy of their media coverage and advocated that the Bank's cooperation with them should not only be limited to the follow-up of the Rio Summit but should also include NGOs in their ordinary project management. In that context, he would like special attention to be paid to the particular problems of the African indigenous populations, within the framework of the International Year for Indigenous Populations.

216. Thirdly, he believed that the regionalization of specific problems facing African countries in the area of environmental protection needed to be highlighted in the document.

217. Fourthly, he wondered whether it was necessary to create a new funding mechanism, the African Environmental Project Preparation Facility (AEPPF), despite the already existing mechanisms such as the ADF Technical Assistance Fund and the technical bilateral cooperation and its numerous opportunities. He was not convinced that the addition of financing mechanisms for a specific objective would always lead to success and efficiency.

218. Finally, he made a general comment relating to the need to pay greater attention to the implementation of ADF policies and to the more active role that could be played by the Regional and National Offices, particularly through project identification, follow-up and implementation.

219. The **REPRESENTATIVE of the NETHERLANDS** agreed with the comment in respect of the close link between Poverty Alleviation, Population and Environment and was of the opinion that that close linkage should naturally lead to stronger emphasis on improving the living conditions of the poor in the rural areas through the integration of projects aimed at promoting sustainable agriculture, primary health care and education. Such a core activity of the ADF in the next replenishment period should be highlighted in the document.

220. With regard to the proposed African Environmental Project Preparation Facility, he pleaded for a more integrated approach rather than for a separate facility for that purpose.

221. Referring to page 7, paragraph 2.3.3 of the document, he requested Management to explain the sentence : "the Bank Group has moved a step farther by making environmental assessment an integral part of any future studies of its potential investment projects".

222. The **REPRESENTATIVE of JAPAN** appreciated Management's attitude in addressing the environmental issue.

223. He joined the Representatives of Belgium and the Netherlands in wondering about the need for a new funding facility and believed that it might cause duplication with the Technical Assistance Fund (TAF). He called for the effective and full use of the TAF.

224. With regard to the need for staff increase mentioned in paragraph 4.1.3, he observed that efforts should be intensified by Management to meet increased staff requirements through the redeployment programme.

225. The **REPRESENTATIVE of CANADA**, likewise, commended Management on the document. He recognized and appreciated the tremendous amount of work accomplished by Management and the level of its commitment on the environmental issue.

226. He was particularly sensitive to the aspect on establishing linkages with Non-Governmental Organizations (NGOs) and other international organizations and would like the Bank to further increase its activities in that area so as to assist member countries in developing effective environmental strategies and plans.

D/MP

227. The **REPRESENTATIVE of the UNITED KINGDOM** found the document a very useful completion of Fund activities, particularly as regards **Environment and Poverty Alleviation**.

228. He endorsed the programme of activities for the future but did not entirely share the threat to institutional capacity that was implied by the paper. He had the impression that the Bank had just reached the stage expected of it much earlier on during the ADF-VI period.

229. He shared the reservation expressed by the Belgian delegate about the proposed AEPPF.

230. He also pointed out that Management's paper should have focused more on the need for coordination, particularly in preparing national environmental assessment programmes. He welcomed the establishment of the network for National Environmental Sustainable Development in Africa (NESDA), to be located in the ADB headquarters but drew Management's attention to the fact that many other donor organizations were working on that section of environment; hence, some division of labour might be useful to consider in order to avoid duplication of efforts.

231. The **REPRESENTATIVE of FRANCE** expressed satisfaction with the progress achieved in implementing the ADF-VI directives and programmes. Management had demonstrated its enthusiasm and increasing commitment to integrate environmental dimensions in its projects. Nevertheless, he wondered whether the document was not a bit too theoretical since there were hesitations in classifying the projects. Besides, some classifications had been a little bit too rapid and on that account, he believed that it was absolutely necessary for Management to work with the utmost clarity and transparency vis-à-vis the Board of Directors.

D/MP

232. Furthermore, he felt that environmental issues should get the voluntary acceptance of countries and should not be imposed on them in an artificial way.

233. He was also under the impression that the Poverty Alleviation policy had not been given concrete expression and expressed regret that ADF-VI was a bit behind schedule on the implementation of those guidelines, which were submitted much later to the Board of Directors.

234. Finally, like the previous speakers, he had extreme reservations about the creation of the AEPPF. In his view, environmental protection was an integral part of development and should as such be integrated in all development policies, programmes and projects; it should therefore not be the subject of a specific financing mechanism.

235. The **REPRESENTATIVE of the UNITED STATES of AMERICA** appreciated the presentation made and congratulated Management on the significant efforts made politically and developmentally in the area of environment.

236. He also commended the Bank for the progress made and echoed the observations made by the United Kingdom delegate that the Bank was now beginning to realize the type of results anticipated from the onset.

237. He mentioned that without credible leadership in the area of environment, multilateral development banks could not have a credible future in terms of attracting support within their countries. He explained that the pressure on the Fund was perhaps an echo of the pressure on issues of sustainable development and environment which had grown to the point of a force which was difficult to cope with and whose urgency and extent of constructive cooperation with Management could not be overstated.

D/MP

238. He requested Management to continue to pay great attention to project classification, timing and availability of environmental impact assessments.

239. He would appreciate, from Management, a frank assessment of how NGOs could contribute significantly to the Bank Group's operations.

240. He believed that the topic under discussion was probably the most difficult in terms of the responsibility put on the Bank in the area of environment and the attention to be paid to sustainable development, including Health, Education and Women in Development.

241. He, once again, commended the leadership role played by Mr. Kariisa (ADB) and his staff in the area of environment.

242. Mr. KARIISA (ADB), responding to the comments and observations made by the Deputies, first thanked them and assured them that Management would take all those positive comments into consideration in its future operations.

243. He pointed out that the African Environmental Project Preparation Facility (AEPPF) was a tripartite collaborative arrangement between the GCA, the ADB and the World Bank with a view to implementing some of the objectives of Rio. The ADB, mindful of the need to ensure the viability of the facility before injecting resources, requested GCA funding for a pre-feasibility study of the facility, the report of which was yet to be discussed and finalized. He explained that the Bank was currently not pushing for that facility as an obligation but as a means of coordinating the environmental efforts in Africa, recognizing the amount of good will for supporting environmental activity in the region. He regretted that that goodwill could go astray because governments were being approached with various financing offers for different forms of environmental action plans.

D/MP

244. Management believed that the coordination of National Environmental Action Plans (NEAPs) was essential in order to assist governments to better coordinate their efforts for purposes of implementing "Agenda 21".

245. He explained that the use of consultants in various activities related to the project cycle and training was not specific to the environmental area but to various other areas where the required skills were not readily available in the Bank's staffing complement. Furthermore, because of the various activities taking place in the Bank, consultants were sometimes engaged to meet staffing shortages.

246. With regard to the 33 projects classified as Category I, he stated that the majority of them were funded by the Bank Group and the countries concerned but where there was a co-financier, Management informed it of the Bank's requirement or not of a full EIA, in accordance with the project's environmental classification. Nevertheless, where the co-financier's procedures did not necessarily demand the EIA component, the Bank undertook to prepare the EIA and, to date, no problems had been encountered in terms of coordination of those requirements.

247. With regard to the better integration of EIAs in the feasibility studies, he indicated that unlike in the past where feasibility studies were conducted without adequate environmental considerations, Bank Group projects were currently subjected to mandatory environmental screening right from the beginning of the feasibility stage.

248. With regard to translating the linkage between Population, Poverty Alleviation and the Environment into operational practices, he indicated that Management was in the process of finalizing the guidelines for the Action Programme for Poverty Alleviation. Population guidelines underway, were expected to be ready sometime in the year. Having already developed the environmental guidelines, Management, with American bilateral assistance, was planning to prepare more detailed sectoral guidelines to enable it incorporate

the various elements in the EPCPs, the training programmes and other economic work in an integrated manner to enable staff to interpret the elements much more functionally.

249. With regard to NGOs, particularly those in Africa, he emphasized that the Bank was increasingly making efforts, through various seminars, workshops and fora, to develop fruitful ties in mutual cooperation with NGOs to enable Management draw on their multi-disciplinary and popular energies, special experiences and know-how in order to improve the participatory element in different stages of the Bank's project management. He regretted that the absence of an umbrella organization for NGOs as a group raised communication problems but assured the Deputies that the Bank would continue to seek appropriate ways and means of getting them to become effective development partners in Africa.

250. The **REPRESENTATIVE of the UNITED STATES of AMERICA** appreciated the responses and explanations provided by Management but would further like Management to give its views or later formulate some advice for the Deputies on whether or not small project activities for NGOs would be an appropriate type of activity for the Fund to engage in to assist in the area of sustainable development and poverty alleviation.

251. Mr. **KARIISA (ADB)** conceded that African NGOs were very short of resources and that limited their ability to dialogue with the various donors; besides, they were not official Bank customers but independent agencies. Management was in the process of examining cases for such requests. It did not have the appropriate means of support but believed that there was the need to consider the possibility of assisting in small grant type of activities to enable NGOs operate on some of their projects. He recalled that within some of the ADF projects, there had been some limited financing of NGO activities through umbrella mechanisms and that could possibly be expanded. Finally, he believed a more careful examination would be worthwhile.

D/MP

252. The **CHAIRMAN** concluded that the discussions on the environment issue would be pursued during the next round of ADF replenishment negotiations and proposed to the Deputies to consider item 4.2 on ADF-VII Policy Priorities.

ADF-VII POLICY PRIORITIES (ADF-VII/CM.1/93/06 - ADF-VII/CM.1/93/05 (Agenda item 4.2))

GENERAL COMMENTS

253. The **CHAIRMAN** proposed that they proceed with a very fundamental discussion on ADF-VII priorities, focusing on the American delegate's general introduction the previous day, to determine first the real priorities of ADF. He also recalled some of the pertinent remarks made by the African Executive Directors during his discussions on the issue with them the previous afternoon. He therefore believed that it would be very prudent on their part to go back to the basic objectives set at the creation of the Fund and discuss the priorities which could make it different from other funds and most successful.

It was so decided.

254. The **REPRESENTATIVE of the UNITED STATES of AMERICA** observed that the ADF should perhaps adjust the focus of some of its activities to reflect the sense of being distinctly African and at the leading edge of addressing the development constraints in Africa. He recalled from his reading of the ADF Annual Report, the sense that transpired of the dispersion of Africa in terms of sectors and the conflicting economic priorities that the Fund had supported in the past and suggested that Fund Management consider some of those sectors and educate the Deputies in terms of focussing its activities particularly in the areas of sustainable development, infrastructure and how to approach the environment imperative. The ADB could take the leadership in preserving those assets. His initial thinking was that if the ADB could move to invest in human development, supported by infrastructure, the

ADF could then move out of those areas and take the leadership in environment. He believed that the Fund could excite intellectual and political forces throughout the world and demonstrate a very sound and African approach to the development of the Continent.

255. The **REPRESENTATIVE of SAUDI ARABIA** urged that in fixing the ADF-VII policy priorities, Deputies should take account of the fact that most beneficiary countries were not eligible for ADB loans. The efforts of the Bank and the Fund should therefore be complementary. In fact, increased agricultural production should be accompanied by appropriate infrastructural development. There would be no point limiting priority to the agricultural sector in terms of resource allocations when in fact there were no appropriate infrastructure for the conservation and evacuation of farm products to the urban areas.

256. The **REPRESENTATIVE of ITALY** welcomed Management's decision to focus attention, during the subsequent three years, on poverty alleviation which he believed could be achieved through projects that could enhance sustainable development. He drew attention to Article 2.2 of the Agreement establishing the African Development Fund which clearly set out the Institution's central mandate namely, to assist the ADB to attain its primary objective and therefore supported the view expressed by the Saudi Arabian delegate on the need for complementarity in the operations of the Bank and the Fund particularly in the social and agricultural sectors.

257. The **REPRESENTATIVE of CANADA** agreed with the American delegate that the ADF should continuously demonstrate that it was very efficient and effective development instrument with a unique comparative advantage. In his view, poverty alleviation, women in development and the environment should be given priority under ADF-VII.

258. The Fund should have a broad definition of development and ensure that its interventions had direct bearing on the various components of sustainable development.

D/ES

259. The Fund had a very important role to play in the development efforts of borrowing member countries and it should establish an effective dialogue with those countries so as to guide the formulation of their development strategies. In fact, the Fund should project the vision that African countries should have of their continent and at the same time encourage them towards economic integration.

260. The **REPRESENTATIVE of SWITZERLAND**, making reference to the priority to be given to poverty alleviation, said that both the Bank and the Fund were not NGOs and had certain operational and financial rules to observe. Besides, experience had shown that the issue of poverty alleviation was to some extent political since it entailed giving the liberty of expression to people who had been deprived of it for long. Projects conceived in that context should, therefore, be implemented systematically and at the target population's own pace. In fact, poverty alleviation programmes should at best be initiated by NGOs and bilateral co-operation agencies and test the waters for multilateral institutions to develop the initiatives and finance them.

261. Local consulting firms and consultants should also be given the opportunity to participate in project implementation through joint ventures with bigger and well established foreign firms operating in the continent. The local firms could be entrusted with maintenance works that would be required subsequently.

262. The **REPRESENTATIVE of the UNITED KINGDOM** believed that the thrust of the proposal made by the US delegate the previous day and reiterated that morning was the need to re-orient and narrow the range of Fund activities so as to concentrate on social infrastructure development. He pointed out that the ADF was just one of several multilateral co-operation agencies helping regional member countries in their efforts to attain sustainable development and that the assistance thus provided should be co-ordinated to avoid duplication of efforts.

D/ES

263. In his view, the priorities of the Fund should consist, amongst others, of investment promotion and environmental protection. Efforts should be made to enhance the efficiency of investments made and that meant taking account of the macro-economic context. His delegation, therefore, attached much importance to the Fund's effective participation in structural adjustment and economic reform efforts of beneficiary countries. In that regard, the policy agenda agreed upon under ADF-VI remained valid; the Fund had begun to put the mechanisms and procedures in place and it had to be given time to strengthen and develop them under ADF-VII.

264. The **REPRESENTATIVE of FRANCE** felt that the ADF-VII should be a continuation of the ADF-VI since the priorities set under the latter were still valid as rightly pointed out by the UK delegate. France was convinced about the legitimacy and relevance of the Fund's activities in those priority areas. They were areas crucial to the development of Africa and should, therefore, be entrusted to the ADF which was quite conversant with the environment.

265. He had, however, observed during the ADF-VI Mid-Term Review that not all the policies formulated under that replenishment had been fully implemented. While much progress had been made in areas such as the environment, there were others where a lot remained to be done particularly the Bank Group's population policy, poverty alleviation and women in development. The ADF-VII should therefore strengthen, concretize and enhance efforts initiated under ADF-VI.

266. His delegation had some reservations on certain projected new areas of the Fund's operations namely, the private sector and debt reduction. With regard to the private sector, the Fund's contribution to the development of that sector should be limited to the effective implementation of the various policy decisions taken under ADF-VI i.e. women in development and particularly their access to credit facilities.

D/ES

267. As far as debt reduction was concerned, the document submitted by Management was not detailed enough to enable Deputies to understand precisely what the Fund intended to do. In any case, his delegation had some reservation on the proposal to replace ADB loans previously contracted by very poor member countries by ADF funds.

268. The **REPRESENTATIVE of the NETHERLANDS** observed that the statements he had made earlier were much more relevant to the item under consideration and would, therefore, wish to make reference to them and to state further that another central concern under ADF-VII should be environmental protection. Besides, the various concerns expressed at previous Annual Meetings of the Bank and the Fund had shown that the problem of arrears was real. Shareholders and State Participants could not afford to wait until the situation ran out of hands but at the same time, the vigorous application of the sanctions policy was not an adequate solution. In fact, it was evident that debt overhang was frustrating attempts at structural reforms and macro-economic stabilization. The Latin American situation had shown that the debt problem should be tackled up-front. The ADF, with its concessional resources, should therefore play an active role, primarily within the framework of existing instances of the IMF, the World Bank and the Special Programme of Assistance to Africa. The Fund should not, however, shy away from taking initiatives in certain areas.

269. The **REPRESENTATIVE of JAPAN** noted that many countries had been pursuing structural adjustment policies with varying degrees of success. In most cases, bottlenecks impeded the smooth implementation of policies. Those bottlenecks were caused by inadequate economic, social and human resource development. The Fund should, therefore, give priority to those inadequacies under the seventh replenishment while at the same time not forgetting poverty alleviation and the environment.

270. The **REPRESENTATIVE of DENMARK** supported his Dutch colleague's views on the debt situation of Fund beneficiary countries. He, however, felt that it would be a little presumptuous to put debt alleviation on the same level as poverty alleviation and

environment. He drew attention to the fact that the Fund's non-project lending was in a way, a debt relief measure as the resources were used to service debt. The issue at stake should be, whether to set aside a specific amount under ADF-VII for the purpose.

271. The **ADB PRESIDENT**, in response to the general remarks made by Deputies on the ADF-VII policy priorities, explained that although the African Development Fund was non-African by origin as its resources were provided by non-regional donor countries, it was African in its objectives. Considering the fact that the Fund's overall ambition was to promote development in borrowing countries, it would be worthwhile to give an opportunity to Africans, who best knew their development environment and problems, to set their priorities. Thereafter, the donor community could draw on its vast experience to give useful advice regarding those priorities but within the context of a fraternal dialogue with the Africans. Under the current circumstances however, it was incorrect to say that Africans were being given the opportunity to set their own priorities.

272. With reference to poverty alleviation, he observed that the notion was very vast and suggested that plenipotentiaries organize in the non-distant future, a working session involving Executive Directors and Governors with a view to harmonizing viewpoints on appropriate strategies for poverty reduction in Africa.

POVERTY ALLEVIATION (Agenda item 4.2(a))

273. Mr. **LONDON**, in his introductory remarks, said that Management considered poverty alleviation as the Fund's "**raison d'être**" and that proposals made in the document were meant to enhance efforts made by the Bank Group during the previous two years. In fact, Management was addressing the problem from the standpoints of micro and macro-economic policies, the environment, gender issues etc. The ADF-VII period would enable Management to proceed with what had been initiated under the Sixth Replenishment.

D/ES

274. In response to the observation made that morning on the need for the Fund to invest in human resource development, he said that the ultimate target of any development effort was man. The Fund's investments in the various sectors were, therefore, focused on the promotion of the welfare of the target groups.

275. He recalled that during the ADF-VI negotiations in Washington, Management had proposed to tackle poverty alleviation at the macro, meso (sectoral) and micro (project) levels. With the establishment of the basic mechanisms and strategies under ADF-VI, Management was of the view that ADF-VII would provide the opportunity to move to meso (sectoral) level operations. To achieve that, the Fund should be much more imaginative in its operations and extend assistance to private investments such as small-scale enterprises. The proposal was not new because as stated earlier, the issue was raised during the ADF-VI negotiations and was even included in the document submitted by Management on the Bank Group's third five-year operational programme.

276. Management's efforts to improve upon what had been achieved would also entail taking a closer look at the poverty situation in Africa. Remedial measures identified would be systematically applied to all pockets of poverty in all member countries irrespective of category.

277. The **REPRESENTATIVE of JAPAN** supported the French delegate's view that it would be inappropriate for the Fund to directly give loans or grants to small or medium-scale enterprises. The ADF was made up of soft funds and granting loans out of those resources to the private sector would impair fair competition among enterprises in the sector. Referring to Article 16 of the Agreement establishing the Fund, he wanted to know if the ADF could legally give grants to the private sector.

278. The **REPRESENTATIVE of the UNITED KINGDOM** felt that it was premature to propose to increase the Fund's operational instruments under poverty alleviation since

Management submitted the action programme belatedly and the operational guidelines were not still available. Besides, even if an adequate framework had been put in place, Deputies should look into the advisability of an institution like the ADF to get involved in macro level activities. His delegation held the same view as the Japanese delegate that the Fund should avoid subsidizing the private sector. In fact, the provision of grants to informal and small-scale enterprises should be handled by non-governmental organizations (NGOs) or other agencies better equipped to deal with such situations. He, therefore, had reservations on the proposal that the ADF lend directly to the private sector as part of the poverty reduction efforts of the Bank Group. Management should rather put emphasis on getting the macro-economic framework in place and targetting Fund efforts on developing social infrastructure.

279. He also had reservations on the proposal to move away from the country-focus to tackling pockets of poverty wherever they might exist in Africa, because priority should be given to the poorest countries in the allocation of concessional resources. Besides, the Fund's terms of lending should be determined on a sectoral rather than a country basis.

280. The REPRESENTATIVE of FRANCE reiterated that the priorities set under ADF-VI for poverty alleviation should be pursued under the seventh replenishment to ensure that actions that had been initiated could be fully accomplished. He, therefore, welcomed Management's assurance in paragraph 2.4 of the document that poverty alleviation would continue to be central to Fund operations over the subsequent replenishment period.

281. He had listened with much interest to Management's brief introductory remarks and it was heartening to note that the Fund's approach to poverty alleviation was from both the micro-economic and the macro-economic viewpoints. The fight against poverty required the establishment of a more equitable fiscal system and the formulation of updated, equitable and balanced social policies. The Fund should assist borrowing countries attain those objectives.

D/ES

282. The **REPRESENTATIVE of BELGIUM** pointed out that the issues raised by the American delegate provided an excellent framework for the ADF-VII priorities. As stated earlier by previous speakers, efforts for sustainable and balanced development in Africa should repose on the fight against poverty. The Fund must therefore operationalize the concept of poverty alleviation. That would not necessarily mean setting new priorities, since those initiated under the previous replenishment were still valid.

283. He was impressed by the introductory remarks of the ADB President and the staff since both Management and State Participants should work collectively through a frank exchange of views. In that regard, it was not necessary for the Fund to spread out its activities but should rather concentrate and improve upon what had been achieved. Furthermore, like most previous speakers, he was against Management's proposal that the Fund lend directly to the private sector. The proposed new lending mechanism along the lines of the Africa Project Development Facility (APDF) was also to be discouraged to avoid duplication of efforts.

284. He reiterated the importance of the agricultural sector to the development of African economies. Nevertheless, he wondered whether it would be advisable to allocate additional resources to the sector under the seventh replenishment as proposed in Management's document when in fact the targets set under ADF-VI had not been met. He suggested that a consultative committee look into the sector to identify areas where the Fund could improve its operations and those where activities could be consolidated.

285. As regards country eligibility, he was of the view that Fund resources should be allocated essentially to the poorest countries i.e. countries in category A and to some extent, those in category B. The assistance to countries that had attained some degree of development should rather involve the mobilization and redistribution of domestic resources as well as recourse to private sector loans rather than taking away concessional funds from those that needed them most.

286. The **REPRESENTATIVE of CANADA** agreed with the broadly outlined priorities including poverty alleviation and the environment. He also conceded that much was still to be done to attain the objectives set under ADF-VI. The Fund's intervention in other areas should be determined on a comparative advantage basis. For example, Management should assess whether ADF provided the best framework for dealing with the debt problem of African countries. As regards poverty alleviation, he was not convinced that ADF resources should be used to resolve the problem of pockets of poverty in fairly more developed countries in Africa since there could be more effective ways of dealing with the situation. Finally, although Africa needs a strong private sector, his view was that the ADF might not be the best source of financing.

287. The **REPRESENTATIVE of the NETHERLANDS** shared most of the concerns expressed by his colleagues about the proposed special facilities of concessional resources to small-scale enterprises and observed that the ADF should rather focus on policies adopted under ADF-VI. He was not also in favour of the pockets-of-poverty approach to the problem of poverty alleviation because the concessional resources provided under the Fund should be exclusively used for the poorest and debt-distressed countries. Category C countries should address poverty alleviation issues through their domestic policies for which they could receive funding from the ADB.

288. He agreed with the remarks made by France and the United Kingdom on poverty reduction and at the same time welcomed Management's undertaking to provide poverty indicators for monitoring Bank Group strategies. Deputies were aware of the complexity of the task and would recall the disappointing response to a similar request made during the IDA-X negotiations. He hoped that Management would be imaginative in its poverty indicator analysis and wanted to know when the preliminary proposals would be made available.

T/ES

289. The **REPRESENTATIVE of NORWAY** observed that the general impression was that much progress had not been made under ADF-VI on poverty alleviation. Nevertheless, bilateral discussions with Management indicated that the Fund's efforts were on track; appropriate and promising strategies had been initiated with a view to improving policy profiles. Those strategies should be fully developed and consolidated before thinking about putting new operational mechanisms in place. He was, therefore, also sceptical about the advisability of the Fund lending directly to the private sector, using Fund resources for social sector projects in categories B and C countries and establishing an APDF sort of mechanism under the ADF.

290. The ADF could play a leading role in the development efforts of the continent by promoting country level activities through effective dialogue with the States concerned for their guidance on the strategic choices to be made in the formulation of national priorities. That strategy would automatically give an African character to the Fund and enhance its role in the international donor community.

291. The **REPRESENTATIVE of PORTUGAL** was also of the view that the main policy focus of ADF-VII should be poverty alleviation. Support to micro projects should be provided through lines of credit by local credit institutions especially those of the co-operative type. She did not, however, believe that the Fund's support to local business initiatives would affect competition in the private sector.

292. The **REPRESENTATIVE of ITALY** observed that the Fund could concentrate on poverty alleviation and the environment, but suggested that all references in the document to debt alleviation be deleted. That done, he would be ready to reconsider the issue on the role of the private sector in poverty alleviation, but urged that Management prepare a detailed document thereon.

T/ES

293. The REPRESENTATIVE of the UNITED STATES of AMERICA endorsed the comments made by his Danish colleague concerning the level of non-project loans, which was obviously linked to the debt service capabilities of countries and stressed that account should be taken of the said link when discussing other issues.

294. Poverty alleviation implied certain fundamental emphasis on the social sectors and the willingness to support economic opportunities for the poor as well as the possibility for them to participate in the economy of their respective countries.

295. His sole strong reservation was in connection with the assistance to be given to micro enterprises; be it grants or other types of assistance. The aid should take certain market features into account such as positive interest rates. He did not feel that it was a question of a private sector that would be relying entirely on subsidies. Furthermore, he drew attention to an unpleasant experience of his authorities in the selection of credit intermediaries. Some sort of mistrust had stepped in and one should be wary in future in selecting them. It was a delicate area which needed to be further studied.

296. The suggestion that the Fund lend directly to private sector concerns was apparently ill-timed as that could not be an appropriate way of utilizing ADF resources.

297. With regard to the fight against pockets of poverty, he observed that it was not always possible to accomplish one's wishes. Indeed, even though he would support the Fund to undertake multi-sectoral operations, the ADF window did not have the resources to cope with certain situations. The utilization of existing resources should, therefore, be severely restricted and resource allocations should be based on the existing formula. His constituency could not go beyond that because of practical constraints, but perhaps the 10% share allocated for technical assistance could help support some of those operations.

T/ES

298. The **ADB PRESIDENT**, clarifying the private sector issue, stressed that it had never been a question of subsidizing the sector. It was worth noting that the informal sector which was steadily expanding formed the basis of the private sector in Africa. It was, therefore, necessary to give it the required guidance and opportunity to organize itself.

299. That guidance could not be financed from market resources; the Fund window should, therefore, be involved in micro-enterprise financing operations. In fact, an American agency known as the African Development Foundation, financed only those types of activities. The Inter-American Development Bank also financed similar operations from concessional resources.

300. He suggested to delegates to use the expression "pockets of poverty" with care since in most African countries, poverty was rather a major endemic and not isolated cases. If ADF was to assist in improving the living condition of the poor, then the term should be used with caution.

301. The **CHAIRMAN** observed that Deputies undoubtedly supported the Bank Group in its decision to give high priority to poverty alleviation.

302. The representative of Portugal had touched on an important component of the private sector namely, the informal sector and it would not be wrong to state that several Delegates as well as Management wondered as to where to draw the line at times between the informal and formal sectors.

303. As regards the type of financing, he also recalled that the Saudi Arabian delegate had wisely underlined the fact at the beginning of the discussions that sight should not be lost of the complementarity between Bank and Fund operations. Decisions taken at other fora on the eligibility of certain countries for some types of financing could have an impact on discussions relating to Bank Group priorities. That was why it would be advisable to closely

follow up what was happening in other institutions on that specific issue.

304. He suggested that Management prepare a document in the light of all the observations and comments made, for consideration at the subsequent meeting.

305. Concluding, the **CHAIRMAN** proposed that Deputies move to agenda item 4.2(c) concerning debt relief since discussions on the environment had been quite fruitful.

It was so decided.

ADF-VII POLICY PRIORITIES; DEBT ALLEVIATION (Agenda item 4.2(c))

306. The **REPRESENTATIVE of DENMARK** felt that debt alleviation should not be among ADF-VII high priorities and that the Bank would be doing itself disservice by associating the issue with the size of the seventh replenishment. The two issues should be considered separately. Debt alleviation was not an innovation for the institution since the ADF was involved in similar activities particularly the quick disbursing non-project loans which assisted beneficiary countries to service their debts.

307. He then proposed certain basic rules, and stressed first and foremost that only performing countries should benefit from the loan instrument; countries in arrears on ADB loans should obviously be excluded otherwise the risk involved would be too great.

308. Secondly, only heavily indebted countries among the poor should be considered as eligible.

309. Thirdly, beneficiary countries should make an undertaking that they would not contract new debts on market terms from the ADB or other institutions at least during the entire period they would be benefitting from that facility.

310. He, therefore, suggested that a document be prepared for the subsequent meeting containing a number of scenarios and sub-scenarios that could help to address many questions such as the covered portion of interests payable to the Bank, the payment duration of those interests and the distinction to be made between the various beneficiaries. The document should also indicate whether the debt relief instrument would comprise a quick-disbursing loan component.

311. The impact of quick disbursing loans under ADF-VII should also be reflected on. Information on the overall debt of potential beneficiary countries including their commitments to the Bank would also be useful.

312. In his conclusion, the Danish representative observed that it was premature to take a decision on the debt reduction proposal submitted by Management; the issue, however, required reflection. A more detailed and comprehensive document should therefore be prepared thereon before the next meeting.

313. The REPRESENTATIVE of JAPAN conceded that debt alleviation was one of the major challenges facing the Bank. He, however, felt that the proposals made were not specific.

314. The instruments proposed for official debt reduction were not entirely satisfactory because he felt that far from resolving the problem, they would worsen it and thereby frustrate the reimbursement efforts of borrowing countries.

315. With regard to granting more ADF loans to Category A countries since they could not obtain ADB loans, he observed that resource allocation should not be automatic but that there should be a careful prior examination of the various operational aspects.

T/ES

316. The **REPRESENTATIVE of the UNITED KINGDOM**, like his Danish colleague, felt that it was premature to take a decision on the debt alleviation proposal.

317. The best solution, in his view, was to assist African countries to recover their economic growth through the general reform process and SAPs, rather than setting up a specific mechanism of the type being proposed.

318. It would be helpful to have more facts and figures particularly on problems encountered by the Bank itself because of those countries' debts in order to determine suitable remedial measures that could be taken.

319. The **REPRESENTATIVE of FRANCE** reiterated his profound doubts about the proposed debt alleviation mechanisms and therefore shared the scepticism of his Danish colleague.

320. He felt that delegates could not exhaustively discuss the issue as long as the questions raised had not been answered.

321. The **REPRESENTATIVE of ITALY** was strongly opposed to discussing the debt alleviation issue together with the replenishment of ADF resources.

322. The issue could be studied within the context of the Bank's policy dialogue with its regional member countries but not under the ADF.

323. The **REPRESENTATIVE of the UNITED STATES of AMERICA**, after listening to the preceding speakers, observed that several issues overlapped and that that meeting was not an ideal forum to discuss some of the concerns expressed.

T/ES

324. He, therefore, had some reservation on considering the proposal within the context of ADF-VII replenishment exercise. The issue definitely deserved reflection but it should be done advisedly after careful consultation. It required open-mindedness and co-operative attitude towards the lines of communications as well as the willingness at all fora to accept the accompanying responsibilities and suggestions. The approach proposed by his Danish colleague namely, the preparation of a document appeared to be most appropriate at that stage.

325. The CHAIRMAN recalled that the issue was taken up by several Governors during the Bank's Annual Meetings. In spite of some manifest reticence, he was of the view that the issue should be studied.

326. Priorities had been set under various replenishments particularly ADF-VI but conditions had changed in African countries since the Sixth replenishment negotiations. The question, therefore, to ask was whether the priorities set were still valid or whether there was need to adopt new ones. Deputies should, therefore, examine those priorities closely without necessarily questioning the logic that underlay their formulation.

327. It was, therefore, necessary to keep an open mind. He would reflect with the Bank's President and Management on the best way of presenting the issue to Delegates to enable them take a decision thereon.

328. He said that discussions on the ADF-VII policy was closed and proposed that they move on the agenda item 5 concerning the ADF-VII scenarios.

ADF-VII SCENARIOS (Agenda item 5)

329. Mr. LONDON (ADB), presenting the item, stressed that the document focused initially on the level of implementation of ADF-VI to determine what Management hoped to

achieve under the various programmes to be put in place for the subsequent three years.

330. The calculations were based on the value, in real terms, of the ADF-VI replenishment level. The most recent indicators suggested that in real terms, the ADF-VII level was around FUA three (3) billion for that replenishment period or a zero growth in real terms compared to ADF-VI.

331. The amount should, however, be put against the programme the Fund intended to pursue. If the Fund should be effectively involved in areas such as poverty reduction, amongst others, a real increase in the order of 20% or even 50% would be required.

332. Management firmly believed that if the Fund wished to make real progress and not to concentrate solely on figures of the five-year operational programme, a substantial replenishment was required; the Institution had the appropriate absorptive capacity.

333. The **REPRESENTATIVE of JAPAN** first of all made some observations on the way the real value was calculated. He asked for more information on the process of calculating the manufacturing unit value index.

334. Besides, the calculations should be more precise. Management had mentioned an amount of FUA 3 billion but, according to his calculations, the exact figure should be FUA 2.9 billion.

335. He was of the view that a level of FUA 2.9 billion could not be considered as negligible considering the budgetary constraints of State Participants.

336. He then made general comments on the possible level of ADF-VII.

T/ES

337. Referring to Management's proposal, he felt that some of the activities should be further clarified and more precise estimates made since some of those activities were apparently not quite convincing.

338. Generally, it was important to have realistic and constructive discussions on the replenishment level, taking account of the prevailing situation in the borrowing countries, their concessional resource requirements, the capacity to borrow and the prevailing strict budgetary constraints of donor countries.

339. He, therefore, suggested that Management prepare, in the light of comments made, some scenarios that could enable Delegates to consider the issue in a more constructive way.

340. The **REPRESENTATIVE of SPAIN** wanted to know whether the FUA had been harmonized with the BUA.

341. The **SECRETARY-GENERAL** replied that the resolution on the harmonization of the FUA and BUA had been adopted and that it would be effective as from 1 January 1994.

342. The **REPRESENTATIVE of FRANCE** recalled that his country had indicated during the Annual Meetings that it would support an ADF replenishment level commensurate with Africa's concessional resource needs. He, however, felt that it was premature at that stage to discuss that aspect. Indeed, the several major concerns expressed required additional analysis before there could be further discussions on the figures.

343. With regard to the figures, he endorsed the question raised by his Japanese colleague on the method of calculating inflation under ADF-VI.

T/ES

344. He added that areas of particular interest such as environmental protection or poverty alleviation were integral components of Fund programme of action and did not therefore justify, a priori, the determination of special financing packages.

345. The **REPRESENTATIVE of DENMARK** joined his Japanese colleague to ask for clarifications on the calculation of the real value of ADF-VI. He wondered whether the best method was to compare the price levels during the two commitment periods or the two disbursement periods.

346. It appeared that the method used by IDA was that of comparing the price levels between disbursements. He suggested that Management draw inspiration from the methods used by similar institutions.

347. The **REPRESENTATIVE of the UNITED KINGDOM** was of the view that Management had used the IDA methodology to calculate the real replenishment value. He subscribed to the precise figure of FUA 2.9 billion indicated by his Japanese colleague.

348. The initial figure was FUA 2.65 billion for ADF-VI. Management should confirm that the amount was actually mobilized since there was apparently a gap that was not filled. Care was to be taken to ensure that the deficit would not constitute structural obstacle as had been the case of IDA, thereby making it difficult for Delegates to reach an agreement.

349. Figures used in the calculations should therefore be clarified. He shared certain reservations expressed since there were overlapping issues which ought to have been taken into account in the calculations. It might therefore be necessary to isolate certain elements and specify their costs.

350. Like his French colleague, he felt that certain issues should be thoroughly dealt with and clarified before the Delegates could express their views on the figures.

351. The **REPRESENTATIVE of the NETHERLANDS** emphasized that in principle his country was ready to contribute to a substantial Fund replenishment in view of the important mission entrusted to the ADF in areas of environmental protection and poverty alleviation for sustained development. All those activities required additional resources and that was why he felt that Management's request for more funds to cope with some of those operations was in place. The final position of the Netherlands would, however, be determined by the responses to be provided at future meetings.

352. It had been said that the Fund had a role to play in the SAP and structural reform efforts of member countries. Experience had shown that the problem of debt should be resolved before any attempt to design a reform programme in heavily indebted countries. A substantial increase in Fund resources could help resolve the debt problem.

353. The **REPRESENTATIVE of GERMANY** joined his colleagues who had asked for the details of the calculations on projections and the specific scenarios.

354. Referring to a statement made by the ADB President in which he made a proposal to establish a new concessional window with a lending rate of 4%, he asked first of all how that window would be financed and secondly, if the proposal had been taken into account in the scenarios submitted for study.

355. The **REPRESENTATIVE of the UNITED STATES of AMERICA** stressed the importance of all the technical questions raised and pointed out that replies should be provided to them. It was nevertheless important to point out that his country would only respond to the needs expressed within the limit of its financial capacity.

356. It was to be noted that some of those figures were difficult to justify without reference to the relevance of needs expressed. It would be difficult to propose a replenishment figure that could satisfy both parties. It was therefore necessary to work in

close collaboration during the entire negotiation process so as to arrive at a result that would not be considered by both parties as a failure.

357. The prevailing budgetary constraints of many countries indicated that the exercise would be difficult. All parties should therefore make constructive efforts to obtain a positive result even though his country's response would not be entirely commensurate with the development and financial needs of African countries.

358. The REPRESENTATIVE of KUWAIT announced that his country would definitely support the seventh replenishment and contribute to it. He, however, considered it premature to determine the level of the replenishment at that time. The level would depend on how far the doubts voiced by some Deputies were allayed on the Fund's priorities and other broad issues.

359. The REPRESENTATIVE of CANADA found the document quite interesting. Nevertheless, he drew attention to the statement made by his delegation to the recent Annual Meetings on the necessity to work hard to justify a suitable contribution to the replenishment in the face of serious budget constraints.

360. The CHAIRMAN summarized the discussions on the ADF-VII scenarios. He reminded Deputies that if they wished the Fund to undertake certain activities, based on laid down priorities, a price had to be paid by matching priorities with financial capacity. He invited Management to prepare another paper on the scenarios, taking into consideration the Deputies' remarks.

OTHER BUSINESS (Agenda item VI)

361. The PRESIDENT of the BANK, in response to a question by one of the delegates, explained that all the calculations in the documents were based on the existing

value of the Fund's unit of account. The conversion would only come into force in 1994 at the end of the negotiations.

362. The **REPRESENTATIVE of JAPAN** requested Management to prepare an explanatory note on the Bank Group's staff implications under ADF-VII. As had been stressed at the recent Annual Meetings, staff increases should be restricted to the minimum level possible, especially at a time when many member countries were pursuing structural adjustment programmes. The Deputies would not like to be presented with proposals for increasing staff for the implementation of the ADF-VII.

DATE AND VENUE OF THE NEXT CONSULTATIVE MEETING ON ADF-VII
(Agenda item 6)

363. The **CHAIRMAN** recalled that France had proposed to host the next meeting. Should that not be possible, he suggested the Hague as venue, and the week starting on 19 July as the date.

364. The **REPRESENTATIVE of FRANCE** indicated that the date proposed by the Chairman was inconvenient and suggested instead the week starting 5 July.

365. The **REPRESENTATIVE of BELGIUM** was agreeable to July, but pointed out that 21 July coincided with his country's national day celebration.

366. The **REPRESENTATIVE of JAPAN** could not go along with the date proposed by the French delegation because it coincided with that of the economic summit in his country. The meeting could be held instead from 19 or 26 July 1993.

367. The **REPRESENTATIVE of the UNITED STATES of AMERICA** agreed to 19 July.

368. The **CHAIRMAN** announced that 29 and 30 July had been fixed as the dates of the subsequent meeting. The final choice of the venue between Paris and the Hague would be communicated to all the parties concerned.

369. The **REPRESENTATIVE of NORWAY** requested that the working documents for the meeting be made available by the end of June.

370. The **CHAIRMAN** announced that he would examine with the Fund experts the issue of the documents to be submitted to the Plenipotentiaries.

371. He thanked the participants for the tenor of the deliberations and the spirit of co-operation which prevailed. He pleaded with the African people to rest assured that they had friends throughout the world. The various challenges confronting the non-regionals themselves would not make them insensitive to the needs of African countries.

372. Finally, he expressed his thanks to the staff, Management and the President of the Bank for their contribution to the success of the first Consultative Meeting on ADF-VII.

The meeting rose at 12.30 p.m.

T/ST

**FIRST CONSULTATIVE MEETING ON THE
SEVENTH GENERAL REPLENISHMENT OF THE RESOURCES
OF THE AFRICAN DEVELOPMENT FUND (ADF VII)**



**PREMIERE REUNION CONSULTATIVE SUR
LA SEPTIEME RECONSTITUTION GENERALE DES RESSOURCES
DU FONDS AFRICAIN DE DEVELOPPEMENT (FAD-VII)**

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