

AFRICAN DEVELOPMENT FUND

ADF/ZG/ADF-VII/CM.5/94/SR

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

**BERN, SWITZERLAND
21 - 22 APRIL 1994**

PROVISIONAL SUMMARY RECORDS OF THE FIRST SITTING
held at "Salon Royal", Hotel Bellevue Palace, Bern,
Switzerland, on Thursday, 21 April 1994 at 9.45 a.m.

- CHAIRMAN** : **Mr. Ruud TREFFERS**
Deputy 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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Temporary Governor for Switzerland
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Meeting on the Seventh General Replenishment of the
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- : **ADF-VII Replenishment Scenarios and Burden-Sharing**
(Agenda item 5)

OPENING CEREMONY

1. The **CHAIRMAN**, after welcoming the delegates to Bern, including the delegation of Argentina, invited Mr. Matthias Meyer to address the meeting on behalf of the Government of Switzerland.
2. Mr. **MATTHIAS MEYER**, Temporary Governor for Switzerland, formally welcomed the delegates to the Fifth Consultative Meeting on the ADF-VII replenishment. He hoped that they would be able to see something of the country during their stay despite the inclemency of the weather.
3. He stressed that Africa represented a very important region for the people of Switzerland, that it accounted for half of their bilateral resources, and that their particular interest stemmed from deep concern about the severe political and economic difficulties facing many African countries. Judgement was harsh about the present situation was very harsh due to lack of prospects for adjustment and growth in Africa whose experience contrasted with the rapid changes taking place in many Asian and Latin American countries.
4. The current meeting of the African Development Fund should be seen in that light. Account should also be taken of the fact that the African Development Bank Group, as an institution, had to contend with particularly challenging tasks at the present time. Beside the need for a rapid ADF replenishment, there were other no less serious issues to be considered. For instance, the Report of the Task Force on Project Quality was now ready. In fact, the current meeting had been timed in order to take cognizance of the document which, among other things, dealt with the wider issues of the capital adequacy of the Bank and its financial policies.
5. The ADB was also faced with difficult institutional problems involving its major governing organs, the voting power structure, the functioning of the Board of Directors and relationship between it and Management, all of which were part of the picture requiring urgent attention.
6. In conclusion, he commended to the meeting the following extract from the recommendations of the Task Force about improving lending quality:

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"Doing so will require the concerted action of all staff, Management, Board of Directors and the Governors representing its 76 shareholding countries. Shortcomings outlined in this report are their collective responsibility, just as much as are the strengths and assets of the Bank as Africa's premier development finance institution".

7. The **CHAIRMAN** thanked Mr. Meyer for his inspiring words about Africa and the African Development Fund. He observed that the crucial importance of the present meeting lay in a combination of several significant elements. In the first place, it was taking place just before the 30th anniversary celebrations of the Bank and the Annual Meetings in Nairobi where important decisions were expected to be taken.

8. In that connection, he referred to the informal meeting of the OECD non-regional members in London at the end of March at a time when the Bureau of the Board of Governors, other Governors, and the President of the Bank were giving signals on issues of great importance to the Bank Group and the Task Force on Project Quality was nearing the conclusion of its assignment. During their informal meeting, the non-regional group had felt that it was time to spell out issues deemed to be of great importance to the future of the Bank Group.

9. They realized that although several of those issues were outside the scope of the ADF itself, there was an intimate linkage between the Bank and the Fund. He had, therefore, been mandated to convey the Group's ideas and concerns to the Chairman and members of the Bureau of the Board of Governors as well as the President of the Bank through a letter dated 15 April 1994, copies of which had been distributed to the Deputies.

10. The OECD non-regional members had held another informal meeting on the previous day in pursuance of their concerns about the ADF and the course of action to be taken by all the interested parties. He had held discussions with members of Management and the Bureau. It might be a good thing to have a round table that afternoon to solicit the views of Deputies on issues specific to the ADF and the broader issues affecting the Bank Group raised in the letter, in the presence of the Chairman of the Board of Governors and the President who would have arrived by then. He would propose that their reactions be made on the following morning, particularly Management's ideas and strategies, for following up on the Knox Report.

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ADOPTION OF THE AGENDA (ADF-VII/CM.5/94/28) (agenda item 1)

11. The **CHAIRMAN** invited Deputies to adopt the Agenda subject to an exchange of views on the letter dated 15 April 1994 mentioned above.

The Deputies adopted the Agenda of the Fifth Consultative Meeting on the Seventh General Replenishment of the ADF Resources reproduced as annex.

ADOPTION OF THE SUMMARY RECORDS OF THE FOURTH CONSULTATIVE MEETING HELD IN COPENHAGEN ON 20-21 JANUARY 1994 (ADF/ZG/ADF-VII/CM.4/94/SR.) (agenda item 2)

12. The **REPRESENTATIVE of FRANCE** thanked Management for forwarding the document in ample time to Deputies to enable them propose amendments thereto. He requested that his delegation's written amendments to paragraphs 130, 257 and 445) of the Summary Records should be treated as an integral part of the document.

The Deputies adopted the Summary Records of the Fourth Consultative Meeting held in Copenhagen on 20-21 January 1994 subject to the incorporation of the French delegation's amendments.

CONSIDERATION OF THE DRAFT REPORT ON THE CONSULTATIVE MEETINGS ON THE SEVENTH GENERAL REPLENISHMENT OF THE RESOURCES OF THE AFRICAN DEVELOPMENT FUND (ADF-VII/CM.5/94/Rev.2) (agenda item 3)

13. Mr. **WOLDU** (ADB), in his introductory remarks, explained that the starting point of the document was the ADF-VI Lending Policy. The extensive and substantial written comments and suggestions received from Deputies after the Copenhagen meeting had been incorporated and underlined except a few cases which were judged not to reflect the substance of the deliberations at that meeting. Those on which full agreement had not been reached by Deputies were put in square brackets.

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14. The **CHAIRMAN** suggested that the draft report be considered paragraph by paragraph.

15. The **REPRESENTATIVE of the UNITED KINGDOM** thanked the Swiss authorities for the excellent arrangements made for the meeting.

16. He pointed out that despite Management's efforts to accommodate the detailed comments sent by his delegation after the Copenhagen meeting, it had not responded to the central point raised in the covering letter. He expressed the view that the whole structure of the report appeared to be wrong and needed to be revised, bringing upfront much more clearly the organizational and operational deficiencies revealed by the Knox Report. Management's clear response to those shortcomings was critical to shaping the ADF-VI replenishment. It was unsatisfactory giving a description of the difficulties facing Africa in paragraph 4 without any reference to the concerns of Deputies about the institutional weaknesses of the ADF.

17. The **CHAIRMAN** proposed, in order to save time, that the issue of the Knox Report be addressed along with issues of a strategic nature.

18. The **REPRESENTATIVE of the NETHERLANDS** expressed his gratitude to the Swiss authorities for their hospitality and the excellent arrangements made for the meeting.

19. He felt that the spreading out of "Country Eligibility and Resource Allocation" over so many paragraphs was cumbersome and hardly made for easy reading. He proposed instead a simpler system of country classification consisting of Category A countries with per capita GNP of US\$ 543 or less, and including small island countries and countries deemed uncreditworthy for non-concessional financing by the World Bank (i.e. IDA-only countries); Category B (Blend) countries with per capita GNP of US\$ 1,054 or less; and Category C (Bank-only) with per capital of over US\$ 1,054. The classification could, of course, be reviewed during the replenishment period, particularly when data changes necessitated a switch.

20. In reply to a question by the Chairman, he proposed that Nigeria should be a Blend country.

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21. The **REPRESENTATIVE of ITALY** likewise thanked the Swiss authorities for their warm hospitality.

22. He endorsed the Dutch delegate's suggestion for a simplification of the eligibility criteria and for the adoption of the IDA classification system, thereby enabling the ADF to concentrate on Categories A and B countries.

23. The **REPRESENTATIVE of GERMANY** also congratulated the Swiss authorities for the arrangements made for the meeting.

24. His delegation would like to see the Dutch proposal in writing with a complete list of the prospective recipient countries which should be annexed to the report after approval. He felt, in principle, that the classification adopted by the World Bank should be applicable to the regional development banks (AsDB, IADB and ADB) and that any possible deviations therefrom should be explained and discussed.

25. The **REPRESENTATIVE of CANADA** said his delegation was prepared to support the Dutch proposal after thorough examination. He also felt that Nigeria should be treated as a Blend country. He disagreed, however, with the proposal in paragraph 8 to give Category C countries access to the TAF resources since they would already be eligible for ADB resources. Furthermore, his delegation would like to have a definition of the term "substantial access" in relation to Category B countries in paragraph 10.

26. The **CHAIRMAN** explained that the proposal for a limited access to Category C countries was a continuation of previous practices. He recommended that further discussion of paragraph 10 should be shelved till the discussion of paragraph 14 dealing with Nigeria.

27. The **REPRESENTATIVE of FRANCE** voiced reservations about the manner in which the report had been written. He regretted that contrary to the agreement reached in Copenhagen, no opportunity had been given to Deputies to verify and propose amendments to the second draft before preparing the third which was the one that should have been tabled at the current meeting.

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28. The paragraph under discussion was inconsistent with the agreed principle whereby all proposals would have been incorporated in the draft report except those which had not received the consensus of Deputies. As far as he could recall, all the Deputies had supported the classification into three categories, especially the ADF-only category. Some divergencies, however, still remained about the composition of the different categories. He reiterated that his country stood for the adoption of the IDA classification which would affect only three IDA-only countries: Angola, Lesotho and Cape Verde. The per capita GNP proposed by Management was an update of the division instituted under ADF-VI. The position of Algeria should be looked into after assessing the impact of its recent currency devaluation.

29. Finally, he endorsed the Chairman's proposal for the appointment of a select Drafting Committee of Deputies to handle their report.

30. The **CHAIRMAN** explained that the procedure agreed upon in Copenhagen had proved impracticable for many countries which failed to send in their written comments within the 14-day time limit. It had, therefore, been decided to incorporate all the comments in one text. Secondly, while textual amendments could be dealt with through bilateral consultations, those bearing on policies had to be approved by a consensus at the plenary sitting. That was why he had requested the United States' representative to introduce his ideas in text form but not for discussion there and then. He agreed that once approved, after sorting out the borderline cases, the Dutch text could be annexed to the report.

31. The **REPRESENTATIVE of BELGIUM** expressed his appreciation of the host country's hospitality.

32. His delegation was also not satisfied with the draft report, particularly in regard to country classification. He could not subscribe to the proposal in paragraph 8 about extending TAF resources to Category C countries, nor to that in paragraph 9 of allowing Category C countries assessed to be creditworthy to get blend resources.

33. Like the previous speakers, he favoured classification into three categories on the lines of IDA: Category A: ADF-only; Category B: Blend; and Category C: ADB-only. He also agreed that the implications of the classification should be spelt out and the list of the recipient countries annexed to the report. His delegation found certain elements of the Dutch text interesting and would study them attentively.

34. The **REPRESENTATIVE of the UNITED KINGDOM** agreed with the views of the previous speakers, especially on the desirability of adopting the IDA classification system. It was preferable to have a system clearly identifying ADF-only, Blend and Bank-only recipient countries to the former arrangement based purely on GNP cut-off point. But Management should provide a table setting out its understanding of what the three categories would be to enable Deputies react to the Dutch proposals, notably on the composition of the Blend Category and the size of countries within that category. Management should also consider whether the proportion of resources for the B category countries should be increased or reduced. Furthermore, he asked for a clarification of the proposals about equalizing various surpluses and minuses.

35. The **REPRESENTATIVE of the UNITED STATES of AMERICA** said his delegation appreciated the hospitality of the Swiss authorities and the arrangements made by Management for the meeting.

36. Given the complicated discussions ahead and the Deputies' goal to work towards a conclusion of the replenishment negotiations as expeditiously as possible, he appealed to the Executive Directors present to intermix with the various delegations so as to help in resolving the issues under discussion.

37. His delegation's thinking was similar to that behind the Dutch proposal, and would endorse the views of the previous speakers, particularly about the small island countries, and the restriction of the TAF to the lowest income countries because of resource constraints. He continued to believe strongly that the 10% allocation to TAF was too high and should come down to 5%. The foregoing discussions depended on the size of the replenishment. He expected that indications on that score had to be given before the end of the present meeting.

38. He requested that paragraph 14 be reworded to the effect that Nigeria might be eligible for ADF-VII resources if it met the performance criterion.

39. Finally, he observed that difficult discussions had usually been hard to tract in the past, that the Secretariat had done an admirable drafting job by reflecting the views of the various delegations, and that the text before the Deputies was a useful basis for continuing their discussions.

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40. The **CHAIRMAN** wondered if Management could translate at short notice the Dutch text on country eligibility into a list of the three different categories of recipient countries.

41. The **REPRESENTATIVE of GERMANY** expressed concern about the fact that the draft report reflected only comments submitted in writing after the Copenhagen meeting and had left out the oral comments made by his delegation both at that meeting and at the preceding one in Ouagadougou.

42. The **CHAIRMAN** assured the last speaker that it was out of the same concern that he had found it necessary to propose a cumbersome procedure of considering the draft report paragraph by paragraph.

43. **Mr. RWEGASIRA (ADB)**, amplifying the Chairman's explanations, stated that he had already arranged for the dispatch of the first revised draft by DHL when more detailed comments started coming in from several capitals. It had therefore been agreed, after consultation with the Co-ordinator and his colleagues, that the belated comments be incorporated into the text so as to ensure that the task was thorough and satisfactory.

44. The **REPRESENTATIVE of AUSTRIA** supported the request for a simpler classification system as well as the opposition to extending TAF resources to Category C countries.

45. The **REPRESENTATIVE OF FINLAND** joined the other delegations in expressing gratitude to the Swiss authorities for hosting the meeting. He also agreed with the Chairman's conclusion on the Dutch proposal. However, should that proposal affect SPA countries or lead to any overlapping, a special reference should be made to it in the report.

46. The wording of paragraph 10 dealing with blending was open to various interpretations and should be studied and defined by the Board of Directors at a later stage. In that connection, he agreed with the Austrian delegate that the TAF resources should not be extended to Category C countries unless they were 100% refundable.

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47. The **REPRESENTATIVE of JAPAN** said that he appreciated Management's efforts in carrying out the difficult task of preparing the draft report.

48. He shared the view that the term "creditworthiness" needed to be clarified and that a simpler system of classification be put in place. It appeared that if Cameroon, Côte d'Ivoire and Congo which had recently devalued their currencies were classified in Category A, there would be 37 countries in that Category, 6 in Category B and 9 in Category C, whereas the share of ADF-VII resources to Category A remained at 90% in the document. That percentage might therefore have to be reconsidered.

49. With reference to the last lines of paragraph 7, he counselled against frequent reviews because they might destabilize the allocation of resources. He consequently proposed that the words "as necessary" be replaced by "if necessary".

50. The **REPRESENTATIVE of SWITZERLAND** wondered who would determine the reclassification of countries. One option was automatic application of changes decided upon by the World Bank, but the advantages or implications of such a decision had to be analysed for purposes of country programming. Germany's proposal that changes to categories by the World Bank should also apply to the ADB except where there were valid and justifiable differences should be addressed explicitly in the text.

51. The **REPRESENTATIVE of PORTUGAL** congratulated the Swiss authorities and the ADB for the excellent arrangements made for the current meeting.

52. Referring to paragraphs 12 and 13, he maintained his delegation's support of the decision taken in Copenhagen to allocate 22% of ADF-VII replenishment resources to PBL and 10% to TAF.

53. The **REPRESENTATIVE of NORWAY** said he fully supported the Dutch proposal, but repeated for the third time his request to Management to adopt a blending policy.

54. The **CHAIRMAN** took it that the Deputies agreed that, on the basis of the Dutch proposal, the list of countries in the three categories would be considered and annexed to the report.

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55. He reiterated his earlier ruling that further discussion about the statement square-bracketed in paragraph 10 be deferred till they came to the discussion of paragraph 14.

The meeting was suspended at 11.35 and resumed at 11.50 a.m.

56. The **CHAIRMAN** pointed out that although paragraphs 11 did not deal directly with percentages, it was nonetheless linked to the question previously raised by the Dutch delegate, i.e. whether there were grounds to pursue the discussion on the new classification and the distribution of resources between Categories A and B respectively at 90% and 10%. That analysis could be undertaken subsequently when considering the issue of country classification.

57. He added that the word "PBL" should be deleted from paragraph 12, line 2 of the English text.

58. The **REPRESENTATIVE of FRANCE** observed that there was increasing disparity between the English and French versions. The English version spoke of "PBL" reflows" whereas the French version used the terms "montants des prêts à l'appui des réformes". He suggested instead "montants remboursés" (amount reimbursed) or "reimbursements", as in the English text. However, the deletion of "PBL", as suggested by the Chairman, would imply allocating the totality of reimbursements to policy-based loans. He wished to know if that was the meaning of Management's proposal.

59. **Vice-President LOUNES (ADB)**, speaking on behalf of Management, addressed his sincere thanks to the Swiss authorities for the high quality of their hospitality. He observed that there was an error in the French translation of the paragraph which should read: "Les Etats participants sont convenus que [25][22,5] pour cent du montant de la septième reconstitution, majorés du montant du remboursement des prêts, seront consacrés ..."

60. The **REPRESENTATIVE of ITALY**, referring to paragraph 11, suggested the introduction of the following amendment: "80 per cent of ADF-VII resources shall be used for traditional specific investment loans; 95 per cent of these resources shall be allocated to Category A countries and the remaining 5 per cent to Category B countries".

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61. He proposed the following wording for paragraph 12: "State Participants agreed that up to 20 per cent of the ADF replenishment resources" and maintenance of the initial text concerning the PBL reflow. He could not accept earmarking all the amounts reimbursed for policy-based lending.
62. The **CHAIRMAN** felt that the figures in square brackets constituted the principal stumbling-block in that part of the report.
63. The **REPRESENTATIVE of AUSTRIA** thought that the figures were too restrictive, that preference should go to project financing and that policy-based loans should be reduced. He suggested also the retention of 5 per cent in paragraph 13. He supported the Italian delegate's reasoning, and recommended mentioning that loan projects would remain the backbone of the Bank's activities.
64. He indicated that the deletion of "PBL" as suggested by the Co-ordinator would not remedy a translation error, but would introduce a substantive amendment. His authorities wished to see an upper limit of 20 per cent imposed if PBL reflows were included. He expressed his delegation's formal opposition to the deletion of the reference to policy-based loans. If the reimbursed amounts were excluded, then a part of the sentence should be expunged, so that the percentage could be raised to 22.5 or 25%.
65. The **CHAIRMAN**, in the context of figures relating to policy-based loans, recalled that the functions of such loans had been highlighted during the previous discussions, along with the eventual inclusion of a Fifth Dimension type of mechanism enunciated later in the text.
66. The **REPRESENTATIVE of BELGIUM** supported his Italian colleague's viewpoints, particularly concerning the change from 90 to 96% of resources allocated to Category A countries, against 5% to Category B countries, due to the reduction of countries in the latter category, based on the assumption of a review of those categories.
67. It appeared to him also that the level of policy-based loans should be limited to 20%. Knowing that his country favoured a reduction in the technical assistance allocation from 10% to 5%, the 65% or 67.5% repeated in paragraph 11 should be amended accordingly.

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68. The **CHAIRMAN** thought that it would be useful, since Deputies were speaking in figures, to mention three, the percentages to be allocated respectively to investments (paragraph 11), policy-based loans (paragraph 12) and technical assistance (paragraph 13), amounting to 100% of resources.

69. The second point to be specified was the allocation of resources between the two categories of countries in the suggested proportion of 90% to 10%.

70. The **REPRESENTATIVE of GERMANY** felt that coherence necessitated qualifying the figures in paragraph 11 with the term "up to", and those in paragraphs 12 and 13 with "at least". As for the specific figures, he preferred leaving open the matter of determining whether 22.5% for policy-based loans was appropriate, or whether it should be revised downwards, given that a higher amount was excluded.

71. He reiterated that change from one category to another would naturally bring about a re-equilibrium in the allocation of resources between categories.

72. His authorities had problems in the interpretation of paragraphs 11 and 12. In that regard, paragraph 8 of the ADF-VI report was clearer, more comprehensible, and more complete. He recommended that it be reproduced, thereby eliminating ipso facto the problem of PBL reflows. The text submitted might be correct, but it was difficult to understand.

73. He observed that the expression "traditional specific investment loans" referred to the period prior to the introduction of policy-based loans. He thought that it had become outdated.

74. Generally speaking, he had not seen anywhere in the report a definition of "ADF-VII resources". He deemed such a definition necessary, and should encompass not only the proceeds of the replenishment, but also loan cancellations and reimbursements.

75. The **CHAIRMAN** requested Management to clarify the last point raised by the German representative.

76. The **REPRESENTATIVE of JAPAN** noted another translation error in paragraphs 12 and 13. Since the expression "up to" mentioned in the English text was not in the French text, the words "au maximum" should be added to the latter.

77. He supported the figures proposed by his Italian colleague, namely 80% in paragraph 11 and 20% in the following paragraph, where he would prefer 17.5%. Nevertheless, his delegation was ready to join a consensus over 10%, subject to excluding interest subsidy, because a Fifth Dimension type of mechanism also concerned paragraph 40 thereunder, which should read in the same context as paragraphs 12 and 24. He, therefore, reserved his right to revert to the matter later.

78. He proposed the following amendment concerning PBL reflows to all other reimbursements, i.e. "besides reimbursements" because for him, the expression "PBL flows" meant nothing whereas "reflows" said everything. Finally, in paragraph 13, it was important to choose between 5% and 10%, but if the first figure were retained, there would be a 5% surplus of unallocated resources.

79. The **CHAIRMAN** recalled that the totality of resources mentioned in paragraphs 11, 12 and 13 was shared between investments, policy-based loans and technical assistance. Therefore, for reasons of coherence, add up either 65%, 25% and 10%, or 67.5%, 22.5% and 10%. The issue of reimbursements had been overtaken, because they were amounts reinjected into the commitment capacity of the Fund, and would therefore be reallocated within the limits of the prescribed percentages.

80. The **REPRESENTATIVE of the UNITED KINGDOM** announced the following figures: 65%, 25%, and 10%. He added that the primordial message from the World Bank analysis of structural adjustment in Africa was that where there was firm commitment on the part of the authorities of the countries concerned, adjustment succeeded, but that still more sustained efforts should be deployed. Hence the figures announced above. But it was premature to fix the percentages definitively before knowing the global replenishment level.

81. His authorities thought also that if the Technical Assistance Fund was really utilized for improving project quality, one could plead for the allocation of a reasonable proportion of resources to TAF. That was one of the messages of the Knox Report.

82. The **REPRESENTATIVE of SWITZERLAND** noted, in the first place, that the issue of reimbursements was very important for commitment capacity. The best means of taking that into consideration was to fix the percentage on overall fresh resources, plus reimbursements, rather than allocate reimbursements to specific operations which would imply more resources for loans than the percentages defined in the present document. It

would be important to have a global table of projected reimbursements during the period covered by the replenishment in order to have an idea of ADF's overall resources.

83. Secondly, his authorities were opposed to fixing percentages concerning the Technical Assistance Fund because such a practice was contrary to the formulation of a country risk policy as well as a good performance-based country programming; they favoured the creation of a series of indicators which was likely to become arbitrary as they did not correspond to a specific analysis to be made for each country. It might well be that a loan programme set at 25% or 20% would be either too high or too low, according to what transpired in the succeeding two or three years when the objective was improved financing target.

84. He felt that that was inevitable for the lending programme, and that the two percentage of 25 and 22.5 were acceptable, but did not believe that technical assistance activities should be limited to a given percentage. Such activities should form an integral part of loan projects and structural adjustment loans. The implementation of the latter required a substantial contribution for institutional reforms. In a sense, technical assistance activities should not be equated with grants and subsidies. A portion of the latter which would serve to finance technical assistance which, for its part, could be financed by the ADF or, for Categories B and C countries, from the resources made available for normal projects. The report should reflect that characteristic.

85. The **REPRESENTATIVE of CANADA**, sensitive to his Swiss colleague's statement, considered that, in the long-term, the practice of fixed percentages should be abandoned in favour of counting, henceforth, on country risks and country programming. But to remedy the lack of effective country risk and country programming policies, the guidelines under consideration were necessary.

86. For some time, Deputies had asked for a review of the technical assistance. In default of such a review, his authorities could not support an allocation of a higher percentage than 5% of the ADF resources for technical assistance. And to the extent that such activities were tied to specific loans as well as studies of development projects resulting in projects, they would like the said activities to be integrated in the projects, and financed from funds provided for the projects. Technical assistance need not necessarily be provided at all times free of charge.

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87. His delegation would support an allocation of 22.5% for policy-based loans if there were a Fifth Dimension type of mechanism. Otherwise, it would plead for 25%. He proposed, finally, that out of his authorities' concern to see a debt fund put in place within the context of the ADF, to help the Bank, if necessary, the following addition to the end of paragraph 12: "Finally, a portion of ADF resources replenishment could be used to deal with countries in protracted arrears at the African Development Bank".

88. The **REPRESENTATIVE of the UNITED STATES of AMERICA** recalled that during the previous consultative meeting, Deputies had opted for 22.5% by way of compromise - a compromise without elegance - between the proposals for 20% and 25%. His delegation would have preferred 20%, but it remained open to 22.5%. During the same meeting, there had been a lively discussion on the issue of reference to IMF and IBRD documentation in the ADF documents. It had been finally concluded that they were non-project loans or policy-based loans. Within the framework of the Special Programme for Africa (SPA), there had been difficulties and even litigations over disbursements, the ADF having disbursed where, in the opinion of the other members of the donor community, and the basis for such disbursements being inexistent.

89. His delegation was in favour of continuing policy-based loans, and subjecting that goodwill to a consensus between the different parties: the IMF, the IBRD and the African Development Bank Group, in keeping with the intention expressed by Management during the formulation of the programme.

90. Regarding paragraph 22 and reimbursements, his authorities would prefer that the reimbursements were not mentioned in the present context. He had thought that the reimbursements would go up from 127 million Units of Account to 45 millions Units. He asked for a clarification of the figures.

91. Vice-President **LOUNES** said that he would have circulated a memorandum addressed to an Executive Director and copied to other Executive Directors, evaluating the reimbursements programmed for the years 1994, 1995 and 1996 for both the Bank and the Fund.

92. The **REPRESENTATIVE of the UNITED STATES of AMERICA** wanted to know, at that juncture, the amounts, even approximative, of reimbursements to the ADF for the three-year period.

93. Vice-President **LOUNES** said that the document had just been sent for photocopy, and that he would rather not hazard approximative amounts.

94. The **REPRESENTATIVE of the UNITED STATES of AMERICA** repeated his suggestion to shelve for the time being the issue of reimbursed amounts because they could be used for other purposes. If there were legal constraints against the utilization of ADF resources, with US\$ 127 million over three years, the possibility of a debt management mechanism might be examined.

95. There were references to the inclusion of an interest subsidy structure in the operations. In fact, there was no such mechanism in the operations, in the present document, nor anywhere else. What was wrongly called the Fifth Dimension in the document under consideration was something else. What was meant when speaking of 20% or 22.5% of policy-based loans in the context of a structural adjustment programme for which a recipient country had a structural adjustment programme, was a facility which the country concerned could utilize to meet its debt obligations, particularly to the African Development Bank.

96. Finally, it was worth noting that the United States was not opposed to technical assistance. His authorities regarded technical assistance as an essential component of development and supported it, particularly in the context of projects. But his country opposed to the concept of technical assistance incorrectly extended to outside elements, such as the financing of current expenses of projects. Yet, it so transpired that 50% of the amounts supposedly disbursed under technical assistance should not have been disbursed.

97. For his delegation, 5% was a perfectly suitable figure. The 5% difference mentioned by the Japanese delegate could this be allocated for financing the normal activities of the ADF.

98. Vice-President **LOUNES (BAD)** expressed the view that the amounts reimbursed were not legally part of the Fund resources. Reverting to the figures he had alluded to earlier, he explained that according to Management's calculations, the amounts reimbursed plus ADF's charges for the period 1994-1996 stood at about UA 188 million. But if account were taken of past experience, i.e. arrears, the estimate would drop to UA 135 million.

99. The **REPRESENTATIVE of SWITZERLAND** wished to know if it was possible to have projections for beyond the three-year period.

100. The **REPRESENTATIVE of SPAIN** announced 67.5% for traditional loans, 22.5% for policy-based loans, and 10% for technical assistance.

101. The **REPRESENTATIVE of FINLAND**, supporting his German colleague, proposed a qualification of the amount allocated for traditional loans with the words "at least", and that those for policy-based loans as well as technical assistance be maximum amounts. He also endorsed the introduction of flexibility as demanded by his colleague.

102. Concerning the distribution of the amounts, he agreed with the percentages proposed by Spain. Nevertheless, he would like to add that the allocation for technical assistance should be in harmony with paragraph 41 dealing with the ultimate utilization of that component.

103. Furthermore, he supported the addition to paragraph 12 as advocated by the Canadian delegate.

104. The **REPRESENTATIVE of FRANCE**, following the intervention of the German representative, and that of the Chairman, thought that a clear definition of ADF resources was necessary. It was better to consider the ADF commitment capacity and place the notion of commitment authority over that of "ADF resources" or "resources of the ADF-VII replenishment". Commitment authority in fact comprise many elements, including those that had not been mentioned, and interests on loans and investments, as well as deductions for ADF participation in the Bank Group's administrative expenses. That definition should be followed by the adoption, in the body of the text, of the established term.

105. Japan had already mentioned the disparity between the English and the French versions by drawing attention to the term "up to" in the English which had no equivalent in French. His authorities preferred the French text, given that the amounts mentioned were understood as targets, and not absolute limits.

106. Referring to paragraph 12, he shared the position of the American delegation, which called for greater coordination of disbursements within the context of the SPA.

107. As for the amounts reimbursed, he felt that their utilization would be largely tied to the type of decisions which to be taken on the Fifth Dimension, and which should, therefore, be awaited. He thanked Management for the two figures put forward, and

requested Vice-President Lounes for the justification of the optimism of his projections which had moved from an arrears recovery rate of 2/5 to 3/4.

108. He supported the Swiss and Canadian proposals on the specific figures, and agreed that it was regrettable that limits had to be imposed. But it was the lack of worthwhile risk and commitment policies which necessitated such measures. He, therefore, proposed 70%, 25% and 5%, exclusive of reimbursements, on the assumption that the reimbursements would be deployed to a Fifth Dimension type of mechanism.

109. His delegation was, like others, supported technical assistance operations which explained his dissatisfaction with the utilization that had been made of the ADF technical assistance resources. For instance, he observed that since 1987, half of the studies financed by the TAF had not been followed-up. Furthermore, the cumulative rate of disbursements of technical assistance projects under ADF-V and ADF-VI was only 28%, which was indicative of a serious dysfunction.

110. Finally, in paragraph 12, he proposed the deletion from the French text of the phrase "notamment celles qui ont trait au", of the last sentence of the paragraph ending thus: "ses opérations à l'appui des réformes, dans le cadre du Programme spécial d'assistance pour l'Afrique". Only the two words "and particularly" had to be deleted from the English text.

111. The **REPRESENTATIVE of SWEDEN** said he was pleased to thank the Swiss authorities for their warm hospitality and the arrangements made for the current meeting. He felt that the proposal made during the previous meeting for an allocation of 10% of resources to technical assistance was justified. His delegation, therefore, supported it.

112. The **REPRESENTATIVE of NORWAY** indicated that his authorities supported flexibility towards the figures mentioned in the document. However, he proposed the following: 75%, 20% and 5%. He believed that the delegations proposing an increase in the percentage to be allocated to investments had valid reasons for doing so, but at the same time account should be taken at the same time of the shortcomings noticeable in the Bank's operations, shortcomings which were discussed in the Knox Report. Yet those shortcomings had their repercussions on the quality of investments. He was, therefore, reluctant for an undue increase in the volume of resources to be allocated for loan projects.

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113. At the present stage, a substantial level could be validly maintained for policy-based loans. His delegation was objected to the addition proposed to paragraph 12 by Canada. However, Canada's objectives could be achieved through the allocation of an adequate level of resources to policy-based loans.

114. His authorities' view was that skepticism had been sufficiently demonstrated around the about technical assistance and that consensus on the volume would make it possible to reduce that skepticism. Technical assistance also benefited from bilateral support or co-financing. It was, therefore, necessary to reduce and evaluate the technical assistance provided within that context of the ADF.

115. The **REPRESENTATIVE OF GERMANY** observed from the English interpretation of Vice-President Lounes' intervention that reimbursements were not part of the Fund resources, that is, for him of the ADF-VII. He asked for the legal justification of that view because his delegation held a contrary position. In that connection, he cited the following provisions of Chapter III, Article 4 of the Agreement establishing the Fund: "The resources of the Fund shall consist of:

- (i) subscriptions by the Bank;
- (ii) subscriptions by State participants;
- (iii) other resources received by the Fund; and
- (iv) funds derived from operations or otherwise according to the Fund".

116. He further cited provisions of Article 7(i): "The Fund shall at such time as it deems appropriate in the light of the schedule of payments of the initial subscriptions of original participants and of its own operations, and at appropriate intervals thereafter, the Fund may authorize general increases in such subscriptions ... at any time". That meant that the subscriptions had been increased, if one were speaking traditionally of ADF-I up to ADF-VII, and that the availability of funds at a given moment concerned all the resources available at that time.

117. Vice-President **LOUNES** reckoned that the French delegate had correctly responded to that concern by drawing a distinction between commitment capacity and additional subscriptions. He suggested that the Legal Counsel be given the floor.

118. The **REPRESENTATIVE of GERMAN** expressed the view that compared to IDA, ADF reimbursements were quantitatively lower due to the relative youth of the ADF and the ten-year grace period of its loans. Subject to the legal opinion, he could not see why account should not be taken of those reimbursements in the replenishment exercise, as was done in the case in IDA.

119. Mr. **EL OBEID (ADB)** explained that the Fund resources as enumerated in Article 4 of the ADF Agreement constituted the pool of resources available for commitment at any time. On the other hand, Article 7 defined the additional subscriptions mobilized for replenishment. Reimbursements formed part of the commitment capacity.

120. The **REPRESENTATIVE of ITALY** wished to correct his previous statement and to apologise to his Japanese colleague. It was important to take technical assistance into consideration. For him, the ceiling of technical assistance would be 5%, and loan projects allocated 75% of resources, and not 80%.

121. In paragraph 13, third line, he suggested the deletion of the words "except for resources given to Category C countries". The paragraph would thus read: "State Participants agreed that technical assistance activities which consist of grant funds allocated only to the countries in Category A after approval of the Board of Executive Directors.

122. He agreed with the Chairman on the necessity for a clear picture of the components of the ADF: replenishment, reimbursements, cancellations, net liquid income representing the Fund's pool of resources. But the addition to paragraph 12 proposed by Canada created another problem, namely, the utilization of the Special Fund, which did not enjoy total support, and would add, if created, to the common resources. Finally, he accepted that the total volume of resources be considered, as said by the French delegate, as the commitment capacity of the Fund, provided there was no confusion about the ultimate use of resources.

123. The **REPRESENTATIVE of the NETHERLANDS** announced the following percentages: 67.5, 22.5% and 10%. As for the second line of paragraph 12, dealing with the amounts reimbursed on policy-based loans, his delegation reserved its position pending the legal clarification of the amounts reimbursed and the PBL components of the total resources.

124. He supported the Canadian and the American delegations on the necessity for the insertion of a sentence on the establishment of a debt management mechanism because of the importance of creating a safety network under the Bank. Without it, a request for resources might be made for that purpose immediately after the replenishment, which should be avoided at all costs.

125. The **REPRESENTATIVE of JAPAN** was strongly opposed to the addition proposed by Canada to the Special Fund because, legally, the idea of a special fund was not clear, neither technically nor financially. Besides, there was no consensus on the matter. It was advisable to avoid speaking about it at the present stage of the discussions. On the other hand, the proposal about the Fifth Dimension deserved the attention of Deputies. His delegation reserved the right to comment on that aspect when discussing paragraph 40.

126. The **REPRESENTATIVE of BELGIUM** said that for the reasons just mentioned by Japan, he had the most serious reservations against any addition to paragraph 12 as proposed by Canada.

127. The **REPRESENTATIVE of SWEDEN**, commenting on the intervention of his Norwegian colleague, stated that the fact that the ADF counted on bilateral assistance to finance the technical assistance was one reason which militate in favour, and not against an adequate allocation of resources. The Bank required technical assistance to assure high quality for its investments. Secondly, in connection with the Canadian proposal of an addition to paragraph 12, Sweden had not yet taken a firm position, but was not, presently, against that addition.

128. The **REPRESENTATIVE of FRANCE** fully agreed with his Italian, Belgian and Japanese colleagues' views on the Special Fund? Problems relating to the technical, political and timing aspects of the proposal were yet to be settled. Any insistence was likely to undermine a rapid conclusion of the ADF-VII negotiations, which would be regrettable. He suggested that those countries that were interested in the establishment of a debt management mechanism should reach an understanding among themselves to establish one, not under the Fund, but the Bank, to avoid constraints deriving from the ADF Agreement.

129. The **REPRESENTATIVE of the UNITED STATES of AMERICA** firmly supported the Canadian proposal for all the reasons mentioned by the Netherlands. He did not, though, discount the grounds for opposing it. Of all the proposals supported by his

country, it was perhaps the professional viewpoint that satisfied it least. Nevertheless, his authorities considered it prudent, necessary, and perhaps urgent to provide the ADB with a visible safety net at a time when the African colleagues were engaged in reform efforts. The essential thing was not whether the special Fund was mentioned or not in the Report. It was quite possible not to speak about it, and to ask the Governors of the ADB and the ADF to dispose of the matter. Contrary to his French colleague's opinion, he thought that the issue effectively concerned the Governors of the two institutions.

130. The **CHAIRMAN** thanked the United States representative for his constructive contribution and recognition of the fact that the Bank Group was faced with some problems, on the one hand, and that, on the other hand, solutions had to be found to the problems without delaying the present negotiations.

131. The **REPRESENTATIVE of GERMANY** likewise thanked the United States representative for having offered the path of silence on the debt management mechanism. He reiterated the position which he had expressed in Ouagadougou and Copenhagen that policy-based loans could be utilized for practically all purposes, and noted that the matter could be left out of the present document.

132. The **CHAIRMAN**, summarising the discussions, observed that they had enhanced a better definition of the task of Deputies. The percentages were aimed at guiding Management in the allocation of funds available under ADF-VII. It would be useful, if the issue of reimbursements were to be properly treated, to decide on the Fund's overall commitment capacity.

133. With regard to technical assistance, the first part of paragraph 13 dealing with the volume had been considered with some Deputies distinguishing between strict technical assistance and technical assistance in the broadest sense, reimbursable, and integrated with ordinary investments.

134. A brief document was now required on a consensual definition of resources constituting the Fund commitment capacity.

135. He recalled, with respect to the second part of paragraph 13, that during the discussion of paragraph 8, some Deputies had spoken against maintaining the eligibility of Category C countries. There seemed to be no opposition in that regard.

136. Paragraph 14 might be addressed during the discussion of the Dutch proposal because there was a problem about the classification of Nigeria. The French text of the proposal not being available yet, he suggested that the matter be deferred to the following day.

137. The **REPRESENTATIVE of FRANCE** made clear that when Deputies said that the figures announced should guide Management in the allocation of resources, that should be understood to mean that Management should draw inspiration from it to prepare projects for presentation to the Board for approval. As for the amounts reimbursed on policy-based loans, such reimbursements would be insignificant during the ADF-VII period, given the date of entry into force of the loans.

138. He reiterated his question to Vice-President Lounes about the basis of his optimism for the increased rate of reimbursements during the ADF-VII period.

139. Vice-President **LOUNES** replied that the expected improvements derived from the application of the new sanctions policy. Management expected the arrears on the payment of principal to stand at about 50% of the 1993 level. As for reimbursements of interests, after provision, it was reckoned that about 26 million units of account would be recovered for the years 1994-1996.

140. The **REPRESENTATIVE of the UNITED STATES of AMERICA** observed that a delegation had stated that it would not take part in the replenishment of resources of ADF-VII if a debt management mechanism was put in place. With one ultimatum breeding another, another delegation had announced that it would not participate in the replenishment if such a mechanism was not established. He suggested, therefore, that the matter be left to the discretion of another organ, namely, the Boards of Governors.

CHAPTER C: ALLOCATION CRITERIA AMONG ELIGIBLE COUNTRIES

141. The **REPRESENTATIVE of FRANCE**, referring to paragraphs 15-17, recalled the general judgement reached at the previous meeting that the performance-based system of allocation had been too complex to work well. He felt that in terms of transparency, the new text could afford some minor improvements. For instance, performance assessment should be based on objective and unassailable criteria and analyses, taking into account all the previous studies by other competent organizations, especially the World Bank and the IMF.

He, therefore, suggested the insertion of the words "especially those of other competent international organizations such as the World Bank and the IMF" after the word "analyses" in the last line of the main body of paragraph 15.

142. Secondly, although the basic work would be undertaken by Management, it would still be necessary to spell out who and who would do what because the Board of Directors was responsible for approving or modifying Management's proposals. There seemed to be a slight contradiction between paragraphs 17 and 18 both of which should be read together. While paragraph 17 stated that each country's performance would be assessed on an annual basis by Fund Management, the latter was required by paragraph 18 to submit proposals to the Board of Directors on country classification and possible re-classification.

143 Paragraph 17 should be recast in order to harmonize it more closely with paragraph 18. Furthermore, the expression "portefeuille de chaque pays" (each country's portfolio) in sub-paragraph 18(iv) should be amplified in the French text so as to make clear that performance in this context was related to the ADB Group loans in each country.

144. The **REPRESENTATIVE of FINLAND**, referring to the same paragraph 17, asked whether the sentence "Appropriate weights attached to these measures will continue to be reviewed and the results of the evaluation will be communicated regularly to the Board of Directors" meant the review of the "weights" and not the results of the actual evaluation, mentioned in paragraph 18. He suggested, moreover, that the phrase "relative poverty" in the second sentence of paragraph 15 be replaced by the term "poverty reduction" which would cast the statement in a more positive light.

145. The **REPRESENTATIVE of GERMANY** endorsed his French colleague's proposals concerning paragraphs 17 and 18. He suggested that the heading of sub-paragraph (iii) should be amended to read "Sustainability in Environmental and Other Terms". He also thought that the word "would" as used under sub-paragraph 17(iv) should be replaced by "will"; that "In practice" in sub-paragraph 17(v) in the last sentence of sub-paragraph 17(v) should be changed to "In addition"; and that the word "annually" in paragraph 18 should replace "periodically".

146. The **CHAIRMAN** requested the Editorial Committee to examine the above suggestions for purposes of harmony and consistency.

147. The **REPRESENTATIVE of the UNITED KINGDOM**, referring to sub-paragraph 17(iv) dealing with the criteria for portfolio performance assessment, noted the clear message in the Knox Report that the lack of satisfactory data prevented the Task Force on Loan Quality from analysing the status of the portfolio. He would welcome Management's comment on how that particular problem would be overcome under ADF-VII. In connection with paragraph 18, he agreed with the French delegate's opinion that there was room for questioning some of the decisions taken after a long debate on the allocation process during the ADF-VI negotiations. He conceded that the system was a new one and that, on balance, Management had not done too badly, although it might have seemed more generous than other institutions in its assessment of good performance. Nevertheless, it was important that the process be left with Management, other than reporting the results in such a clear and transparent way to the Board that Executive Directors could offer comments. The primary responsibility should be left with Management, rather than leaving the decision to the Board as implied in paragraph 18, because that was liable to politicize the process far too much.

148. The **REPRESENTATIVE of ITALY** supported the French delegation's proposal. He took it that each country's programme would be assessed annually by Fund Management on the basis of the IMF/World Bank practice and the proposals submitted to the Board for approval. Since the decision about access would be made by the Board of Directors and not Management, paragraph 17 should be amended to specify that the results of its evaluation would be assessed regularly by, and not merely "communicated", to the Board of Directors.

149. The **REPRESENTATIVE of the NETHERLANDS** said he had initially wanted to share the French representative's view on the harmonization of paragraphs 17 and 18; but after listening carefully to the United Kingdom's arguments, he felt that the task should be entrusted to the Drafting Committee. On the other hand, he completely endorsed the suggestion of his German colleague regarding "Commitment to Good Governance" in sub-paragraph 17(v). He, however, questioned the relevance of the sentence in square bracket at the end of sub-paragraph 17(iv).

At that juncture, the **PRESIDENT of the FUND** took his seat at the table.

150. The **REPRESENTATIVE of the UNITED STATES of AMERICA** supported the opening intervention of his French colleague on the issue of country performance. He pointed out that some of the judgements made for the ADF-VI replenishment had not been unanimously supported by his analysts. He was now raising the issue with a view to

ensuring a broad consensus. Despite the general feeling that certain countries be demoted from the SPA list, it had been difficult to do so in practice. He had thought that the Bank's scheme was basically sound since it comprised a core programme for non-performing countries, an indicative allocation and a bonus for countries performing well. The indicative allocation might be the same as the core programme, i.e. approximately 20%; a country could easily move up through its normal indicative allocation under a good adjustment programme while an exceptional performer would probably prefer the higher of the two figures in terms of bonus. His delegation might allow such a country to reach 50%, but its willingness to do so would be based on a more monitorable process and programme. In other words, a recipient country must demonstrate a positive determination to be able to go beyond the indicative allocation.

151. He agreed with his United Kingdom colleague that the system should be transparent and avoid being politicized. Precisely for the same consideration, the allocation should be approved by the Board; it would be useful to inform the Board and to give it an opportunity to discuss the classification of countries.

152. He recalled the previous discussion on the success of a development agency in terms of using a square foot per population factor as an indicator of the mortality rate in addition to the normal indicator. The concept might initially sound strange, but as one reasoned through, it became quite compelling intellectually in the sense that infant mortality per square foot population actually had an unusual effect in bringing money to where one might otherwise be reluctant to invest. His delegation had commended the system to the Bank and, to the extent that it was useful, he remained quite willing to proceed along that basis.

153. The **CHAIRMAN** formally welcomed the President of the Bank Group to the meeting. He suggested giving him the floor as soon as the issue under discussion was concluded.

154. The **REPRESENTATIVE of FRANCE** indicated that his reaction would be unavoidably ambivalent to the suggestion about changing the word "periodically" to "annually" in paragraph 18. He agreed insofar as the desire for precision was concerned, but he agreed less because he felt that the informative table in question should be submitted to the Board not annually but every time a new project was being proposed for a given country, particularly where the project would affect the existing indicative allocation.

Furthermore, given that the table would only update easily produced computerised data, it should be provided to each Board meeting so as to enable Executive Directors to monitor closely the utilization and evolution of the individual indicative country allocations and of the overall allocations.

155. He shared his United Kingdom colleague's concern for transparent reporting to the Board of Directors on the evaluation of country performance as well as his misgivings about the risk of politicizing the process. In view of the central importance of the matter to the determination of the replenishment level, it should be carefully considered. Having the Board merely take note of Management's decision was in fact likely to politicize the process inasmuch as it would deny the Board opportunity of conclusive discussions without being able to shield Management from pressures by interested Executive Directors. He, therefore, preferred a system in which the ultimate decision would lie with the Board of Directors of the Fund whose voting powers were different from the ADB's and concerning which the United Kingdom's misgivings might be less serious. The issue was of capital importance, having regard to the Knox Report's recommendation on the respective roles and responsibilities of the Board and Management.

156. Mr. MERGHOUB (ADB), referring to paragraph 18, said the objective had always been that the country allocation should be indicative, and that after performance assessment, Management should determine the final allocation to the country concerned based on certain criteria that had been outlined in the Report. It, therefore, seemed contradictory to insist on discussing and approving the allocations beforehand at the Board while at the same time leaving Management some flexibility based on performance. Even in the case of the World Bank, Board discussions were held once a year when the first operation in a country was brought to the Board; it discussed the country strategy but did not approve the performance assessment. The Board might agree or not with Management's assessment, but the discussion was open while the assessment was as transparent as was possible. It was also worth mentioning that country rating in the World Bank was never brought before the Board because of the political implications.

157. While the classification of borrower countries needed the Board's approval, the assessment was a judgement of Management; though the Board might disagree and Management had to take its comments into consideration, the assessment was reviewed on a yearly basis. That was probably why the United States delegation had suggested something closer to the World Bank's practice, i.e. giving Management sufficient latitude to propose

a rewards system up to a ceiling of 50% of the initial indicative allocation. It had been discovered under the ADF-VI replenishment that due to the indicative allocation to countries, the good performers were unable to be rewarded because the reward was virtually meaningless since it was not substantial enough to create the right incentive. Consequently, utmost caution should be exercised in respect of classification and re-classification of countries. Although performance assessment should be most transparent, the exercise fell within the judgement of Management, while decisions about classification and re-classification were the responsibility of the Board of Directors.

158. The **REPRESENTATIVE** of **SWEDEN** observed that the term "human and political rights" mentioned in the second sentence of sub-paragraph 17(v) ought to have been included in the criterion spelt out in the third sentence.

159. The **CHAIRMAN** recalled that paragraphs 16-18 had been disposed of and proposed that any further editorial amendments be taken up later. Meanwhile, in order to speed up the proceedings, he proposed as members of the Drafting Committee, representatives of each of the following delegations: France, Canada and the Netherlands.

It was so agreed.

160. The **CHAIRMAN** then expressed pleasure at having the Bank Group President at the meeting. He seized the opportunity to recapitulate the discussions held earlier that morning on the concerns of the OECD non-regional members as set out in the letter which he, as Co-ordinator, had addressed to both the Chairman of the Board of Governors and the President on 15 April 1994. Deputies had deemed it particularly desirable for the President to be present before embarking on discussion of issues which had a bearing on the broader aspects of the Bank Group. The desire to engage in a constructive exchange of views with the Chairman of the Board of Governors, the President and the Executive Directors present, as well as the regional members, arose from the President's invitation to Deputies to give him more explicit indications of their concerns which might hamper the progress of the ADF-VII replenishment negotiations or affect the Bank Group as a whole.

161. Following the Fourth Meeting in Copenhagen, the OECD group had taken the initiative of holding an informal meeting in London on 30 March 1994, as a result of which it was agreed that the Chairman of the Board of Governors and the President of the Bank should be apprised in explicit terms of the group's major concerns. They recognized that the

types of actions they expected were outside the province of the ADF Deputies and that the issues involved required dialogue and cooperation with the other partners and organs of the Bank Group.

162. Another informal meeting had been held the previous day, especially on the measures necessary to ensure progress in the ADF-VII replenishment negotiations and the success of the forthcoming Annual Meetings, and the ADB 30th anniversary celebrations in Nairobi within the backdrop of the Knox Report. In particular, they required Management's plan of action on the follow-up of the recommendations in that Report and what measures should be put in place to formulate an overall package on the basis of which the Bank Group could look forward to a bright and sound future geared towards positive development in Africa to which the donor countries would be fully committed and in which the Bank would plan a key role as an effective mechanism for mobilizing and channelling resources to Africa.

163. The idea was to initiate an open discussion about those elements which Deputies considered indispensable to the earliest possible conclusion of the ADF-VII replenishment negotiations. That was why he planned to allow Deputies to speak frankly on the broader issues of concern beyond the strict context of the ADF by considering the Draft Report paragraph by paragraph. There was a strong feeling among the OECD members that they had to reach out to their regional colleagues, to the Board and Management for a dialogue on the future of the Bank and on the elements that needed to be addressed. For practical reasons, he thought that Deputies should speak that afternoon and that the President might require some time for consultation and reflection with the Chairman of the Board of Governors and his staff so as to start the following day with a presentation of Management's follow-up plan of action on the Knox Report. However, he would certainly be pleased if the President wished to take the floor there and then.

164. The **PRESIDENT of the BANK GROUP** thanked the Chairman for his kind offer, but declined to take the floor at that juncture because he believed that the importance of the matter demanded thoughtful response. He, however, congratulated the Chairman on his wise approach and, in particular, for elaborating on the concerns outlined in his letter of 15 April 1994. He had taken note of the Chairman's statement, especially on his non invitation to Deputies at the end of the Copenhagen meeting to communicate their key concerns explicitly to Management so that they could be addressed adequately.

165. He regretted that due to the late receipt of the said letter, his reply could not possibly be put in writing in the time available, but was certain to be able to provide Deputies with preliminary reactions on the following morning.

166. He recalled that at the beginning of the ADF-VII replenishment negotiations, he had said that since the ADF-VII would normally end in 1996, a five-year programme (1992-1996) could be put in place for the ADB at the end of which both the ADB and the ADF would have a wonderful opportunity to conduct joint capital replenishment discussions in keeping with the practice at the Inter-American Development Bank. Thus, if there was one particular point on which he could confirm his total agreement, it was about the oneness of the Bank Group; there was only one African Development Bank which had several affiliated funds and unless the Group was perceived as a single entity, problems might arise. He, therefore, unreservedly endorsed the Chairman's approach.

167. The **CHAIRMAN** admitted that the timing of his letter might have created a problem about the sensitive nature of its contents. He invited Deputies to address any of the issues raised in the letter or in the draft Report, those which were related to the Knox Report, especially the timeframe for completing the consultations on the replenishment, and the operational guidelines for ADF-VII formulated in the donors' report and enshrined in the accompanying resolution. Of course, the important question of the replenishment level would still have to be finalized.

168. The **REPRESENTATIVE of the UNITED STATES of AMERICA** commended the Bank Group President and the Chairman's comments as a constructive basis for further discussions. He had been pleased to take part in the meeting of the Bureau of the Board of Governors and to report subsequently on it to the informal group in London together with the request to inform the President of the most basic wishes of the Deputies. The Co-ordinator had discharged the latter assignment creditably with due regard to the sensitivities and concerns of all the prospective donors.

169. His delegation, like others, viewed the replenishment of ADF's resources as part of a broader strategy for supporting the Bank Group. It was true that all members were involved in the replenishment consultations at the Inter-American Development Bank, that those consultations on both the IADB and its soft Funds were constructive, and that it was desirable that the level of ADB Group consultations should continue to be expanded. Quite often, some regional colleagues asserted that the ADB was an African institution whereas

others held the view that it was an international organization with an African emphasis. That seemed to be the second best definition on the basis of which one could proceed. There were not only diplomatic and strategic but also commercial and humanitarian benefits for the United States of America belonging to the Bank.

170. As Deputies proceeded towards the conclusion of the replenishment negotiations, they should keep in their minds the number of steps to pass through so that, hopefully, at the end of the Annual Meetings, they could have a strong and resilient base for contemplating the future before the capital market and the world at large. Those steps included approval or endorsement of the ADF-VII replenishment; initiating discussions on the capital adequacy of the Bank and the need for a new general capital increase; the establishment of a high-level review panel on governance and relationship between the different bodies; institution of a debt relief mechanism which would provide the safety net for the Bank during the capital increase negotiations. The United States believed that the foregoing concerns fell within the responsibilities of Governors and pledged to work dynamically with the other delegations to design the linkages and put together the conditions which would allow those concerns to go forward.

171. Many delegations felt that a successful ADF-VII replenishment hinged on giving full satisfaction to the concerns outlined in the Co-ordinator's letter. In addition to the items suggested by the Chairman, the establishment of an ADF-only category raised the question of assurances that the existing shortcomings in the Bank would not be recreated. A suitable wording, possibly including the exemption of private sector projects, had to be devised. Of course, a time-bound and monitorable follow-up plan of action on the Knox Report, as volunteered by the President and Management and transmitted to the Deputies, would be an important part of any forward-looking cooperative effort. The financial policy reforms which the President and the Board had undertaken so far constituted the basis for Deputies' continued cooperation with the Bank. There was still more to be done on the issues outlined in the Co-ordinator's letter. It was important that the Governors should adopt a suitably worded mandatory resolution committing the member countries of the Bank to agree to work-out programmes with Management to eliminate arrears, and providing guidelines on loan loss provisioning, country exposure, etc.

172. In that context, his delegation was gratified that its concern about the inspection general panel had been included in the report. The strengthening of that function was central to the entire audit effort and was a basic requirement for all international organizations.

Hence, as a matter of principle, his country maintained the same standard not only in the ADB, but in all the multilateral institutions it was participating because the internal audit was a mechanism against irregularities like waste, fraud and corruption. The Bank's external audit capacity appeared to be well formed at present, but might require some modest adjustments. That type of function should report to both the Board and the President, as in the other organizations.

173. Furthermore, he announced that another informal meeting of the non-regional group was slated for Washington during the meeting of the Development Committee to discuss cohesiveness and explore the essential line to follow collectively to ensure the success of the Nairobi Meetings.

174. The **REPRESENTATIVE of the UNITED KINGDOM** observed that the crux of the matter was the Bank Group's development effectiveness and whether, in the opinion of the OECD non-regional members, the ADB was measuring up. It seemed clear from the preliminary findings disclosed by Mr. Knox to Deputies in Copenhagen, and subsequently in his Report, that urgent action was needed to redress the serious deficiencies at all levels of the Bank in terms of operational procedures, organizational structures and governance. The key message was in the seventh paragraph of the Co-ordinator's 15 April letter: "Urgent action is needed over this broad range of issues if the AfDB Group is to retain a credible claim to be an effective mechanism for mobilizing and channelling external resources in support of development in Africa". Given that those issues were not new, that they were concerns that had been expressed at previous ADF meetings, and that Management had, since the Copenhagen meeting, known the essential message in the Report, it was strange that some reaction was not forthcoming immediately as to how it intended to move forward on a matter so crucial to the success of the ADF-VII replenishment negotiations.

175. The **PRESIDENT of the BANK GROUP** assured Deputies that Management was not shying away from reacting to the Co-ordinator's letter, but was only abiding by the wise procedure laid down earlier whereby Deputies would speak on the subject that afternoon, and Management would react thereto on the following day. It was also necessary for Management to confer with the Chairman and the Second Vice-Chairman of the Board of Governors before then. In the circumstances, he appealed to Deputies for patience.

176. The **CHAIRMAN** fully concurred with the President's comments.

177. The **REPRESENTATIVE of CANADA** said that he subscribed to the Co-ordinator's letter and the statements of his United States and British colleagues. He then proceeded to highlight some of those issues that were of particular interest to his country.

178. Firstly, Canada viewed the ADB Group as an entity comprising three separate legal institutions in which its membership of the ADB and ADF was complementary to each other, undeterred by any hard and fast rules of distinction between the two. The two most urgent issues facing the Bank Group were development effectiveness, as mentioned by the British delegate, and the Group's financial viability as outlined by the United States delegate.

179. Regarding the first issue, his delegation had just received the Knox Report but had not had enough time to review it in detail. He would be looking forward to Management's follow-up plan of action on the recommendations in the Report prior to the conclusion of the ADF-VII replenishment negotiations.

180. Secondly, it would be necessary to strengthen the financial situation of the Bank on the lines set forth in the Co-ordinator's letter, including improved country risk policy, enhanced policy-based lending in the context of ADF-VII, adoption of the remaining financial policy reforms initiated a year earlier, particularly on net income targetting and protection of the net income.

181. The **CHAIRMAN** invited Deputies to endeavour to respond to the explicit question which he had put to them at the outset of the discussions, i.e. what, from their viewpoints, were the measures or conditions essential for an early conclusion of the ADF-VII negotiations, given the varying degree of urgency attached to the different issues enumerated in his letter of 15 April 1994.

182. The **REPRESENTATIVE of SWITZERLAND**, speaking about the linkage between the ADF-VII and the other issues pertaining to the Bank, voiced his delegation's deep concern about the timing and the outside impact of their discussions and decisions. The Bank Group appeared to be passing through dire straits, the perception of its situation was negative and deteriorating, and the time had come to reverse that trend and transform it into a positive approach, especially at the Nairobi Meetings. That occasion should be fashioned as an opportunity for constructive support to the Bank, confirmation of the institution as a centre of excellence for Africa, and a consensus for changes, based on two fundamental elements: (a) a definite conclusion of the ADF-VII replenishment negotiations; (b) initiation

of key reforms in the Bank, such as the Fifth General Capital Increase process. As stated by the United States delegate, a clear agreement would have to be reached on the specifics of the ADF-VII replenishment prior to the start of the Annual Meetings. The next objective was that the agreement on and confirmation of the negotiations would be contingent on the Annual Meetings of the Boards of Governors taking a series of actions on other issues - either in the form of a Resolution or other means - which clearly required not only the agreement of the ADF Board of Governors but also that of its ADB Board of Governors.

183. As stated in the Co-ordinator's letter, there were issues that could be resolved during or immediately after the Annual Meetings under a specific timeframe. He need not delve into the financial problems because they were well known and easily identifiable. Like the United Kingdom delegate, he believed that a follow-up plan of action on the findings and recommendations of the Knox Report was of vital importance. The reputation and value of the Bank were obviously intimately tied to the resolution of the financial problems and its financial stability, particularly through the quality of its lending operations as a centre of excellence. There was clearly now an instrument to build upon, and it was extremely important to do so rapidly. In addition to the plan of action, it was essential for the Board of Governors to act with determination and promptitude on the deployment of effective implementation mechanisms and calendar especially in regard to such key issues as governance, organizational structure, decentralization and delegation of authority, operational principles, relationship between the Fund and the Bank in general, and long-term perspectives for the voting structure.

184. Speaking of long-term elements, his delegation strongly believed that the timeframe should not be too long. Decisions on issues that could not be resolved at the Nairobi Annual Meetings and which required further studies should not go beyond the 1995 Annual Meetings. In other words, 1994 should be devoted to the implementation of reforms which should be concluded on or before the next Annual Meetings.

185. The next important element was designing a suitable decision-making mechanism. His delegation would have problems with the Blue Riband Committee proposed because it considered undesirable mechanisms necessitating a long start-up period and elaborate arrangements for terms of reference, selection and recruitment. Instead, the practice of appointing Committees of the Board of Governors should be revived as a monitoring organ between Annual Meetings, with the option of utilizing expert studies where necessary.

186. The **REPRESENTATIVE of FRANCE** said that it was important for Deputies to apprise the Chairman of the Board of Governors and the President of the Bank Group of a number of strategic questions relating to the Bank which was presently at a cross-roads. His country's major concern was to see the Group, comprising the ADB and the ADF, serve Africa in the best possible manner as an effective channel of aid to the continent. That meant an optimal use of the scarce resources put at its disposal, particularly because they were drawn from national budget allocations. Loans made therefrom should be used efficiently in countries with the necessary absorptive capacity to ensure proper implementation and timely repayments. The need to accord priority to good quality projects explained his country's reticence towards the deployment of resources for non-productive operations or concentration of concessional resources in bigger countries. The ADF-VII would break with such a practice because the chief purpose of its resources would be to compensate good performance.

187. While some people claimed that the Bank Group was a good instrument for channelling aid to Africa, France had a natural sympathy for the institution, and wished it to be strong and effective. That was why he was worried about the shortcomings in operational effectiveness established by previous studies and the Knox Report on strengthening personnel management, training managers and equipping staff to meet the new dimensions of project quality and performance, streamlining the decision-making process through better delegation of authority. A precise timeframe should be set for the implementation of the recommendations.

188. He supported his United States' colleague on the issues of transparency and efficiency, internal audit and purchasing rules and procedures. It was clear from the Report that the fundamental issue of governance which must be tackled expeditiously in conjunction with the related questions of the role and functions of the Board of Directors, improvements in management reporting systems and information flow. One of the critical problems facing the Bank Group was information gap which easily created misunderstanding and near impasse in some cases. Efforts should be made to ensure that decisions were implemented in an orderly and timely manner. In that connection, he expressed reservations about the conduct of the Board's deliberations on the lending programme and intended to speak on the matter during the Annual Meetings. If confidence were to be restored, the first task was to ensure the immediate implementation of all the existing decisions by the Governors, the Executive Directors and Management, including the finalization of the operational and financial guidelines according to a definite calendar.

189. The restoration of confidence would also probably be enhanced by increased dialogue between the regional Governors and Executive Directors and their non-regional counterparts. It appeared that much remained to be done in that direction because concerted efforts were indispensable to the rehabilitation of the institution under the prevailing conditions. That goal required special efforts towards the defaulting members for the recovery of arrears based on the measures outlined in the Co-ordinator's letter.

190. The future of the Bank Group lay in a dynamic articulation of the role of the ADB and the ADF, especially the scope of activities of the different windows and the identification of countries capable of absorbing the Bank's lending conditions now and in future. He pointed out that the allocation of subscriptions under the Fourth General Capital Increase, in which certain members had been made to meet their obligations, was not necessarily the best decision. Nor was the situation helped by the lending policy prescribed for the GCI-IV without adequate and detailed operational guidelines.

191. One of the urgent actions recommended by the Knox Report was the adoption of a comprehensive country risk and exposure policy and the classification of ADF-only countries within the Bank. He stressed that the hoped-for early conclusion of the ADF-VII negotiations as well as the future negotiations on the capital structure of the Bank should be based on a clear consensus on the strategies outlined above. Otherwise, one could foresee the perpetuation of ambiguities and a recurrence of past failures, culminating in a diminution of resources flow to the ADB Group in favour of other commitments. On the other hand, one must not dismiss the risks of an explosive situation nurtured by a feeling of frustration on the part of the regional members towards the attitude of the non-regional members, the temptation to stay away from an ADB Group which was no longer meeting their funding expectations, and the resulting diminishing prospects for the recovery of outstanding arrears. That was why he attached the utmost urgency to the introduction of reforms aimed at strengthening both the Bank and the ADF whose membership would be gratified by belonging to a stronger and sounder African Development Bank Group.

192. The **REPRESENTATIVE of SWEDEN**, while agreeing to many of the specific points made by the previous speakers, outlined the overall context in which his country supported the Co-ordinator's letter.

193. He recalled that there had been lengthy discussions on the issues raised in that letter while many of the financial indicators had deteriorated. The French delegate's

projection of the future perspectives left the Bank with no soft options. He therefore welcomed the OECD group's comprehensive agenda for reform measures. He particularly endorsed the inclusion of financial issues in their priority list along with those which should be tackled in order to considerably strengthen development effectiveness as set out by his British colleague. The Blue Ribank Panel might be a constructive suggestion, as he felt that all members of the institution should be involved in the process and that the African symbol should be preserved. It was not going to be easy to enlist the support of all the members for the proposed reforms, but the appointment of the Blue Riband Panel might be one way of accomplishing that task.

194. To sum up, he pledged Sweden's support for immediate rigorous measures provided that they would not result in diminished support for the ADB Group or what it stood for in Africa.

195. The **REPRESENTATIVE of JAPAN** stated that, pending the establishment of a new Government in his country, he could assure Deputies that the existing priority given to the ADB Group would be maintained and that his delegation was prepared to conclude the ADF-VII negotiations at the present time. He strongly commended the same attitude to the other delegations. Since the Seventh Replenishment ought to have been effective from 1st January 1994, every effort should be made to complete the negotiations before the Nairobi Meetings. His delegation was deeply concerned by the problems of governance, project quality, operational procedures and financial issues. However, specific long-term issues could be separated from the short-term ones, taking into account the views of the regional members. Since the desired improvements could not be accomplished in a stroke, he recommended the adoption of a pragmatic approach which was likely to produce positive results.

196. The **REPRESENTATIVE of GERMANY** associated his delegation with his French delegate's interventions. He hoped that their African friends would understand the concerns for co-operation which had motivated the Co-ordinator's letter. Deputies were not seeking to impose harsh conditions on the regional members, but needed, in order to be able to present and defend the institution to their parliaments and general public, evidence of satisfactory performance and the efficient use of their resources. He appealed to those in closer contacts with the donor countries to disseminate that message accordingly.

197. The **REPRESENTATIVE of FINLAND** stated that in the view of his Government, the reason for addressing such a wide range of issues outside the strict context of the ADF-VII replenishment exercise, was because only a financially and operationally strong ADB could deliver the services needed to render ADF's operations effective. The concerns which had been clearly articulated in the Co-ordinator's letter could be grouped into those dealing with loan quality and those relating to the financial standing of the Bank, governance, and organizational structure. There were several ways of seeking immediate results, but the best way was the one being presently followed whereby Management's actions were discussed at the ADF replenishment consultative meetings with a focus on measures required prior to concluding the replenishment, and subsequently proceeding to the discussion of the Bank's own general capital increase for which a special committee of Governors might be set up. Whatever course was chosen, it was important that it enjoyed the broadest possible consensus of the entire membership of the Bank Group.

198. Turning to the particular requirements of his Government to conclude the ADF-VII negotiations, he mentioned, in the first place, a strong evidence of progress on discussions about the implementation of the Knox Report. In that context, he addressed his gratitude to the Bank Group President for setting up the Task Force on Project Quality. He was aware of the considerable amount of discussions going on at Management and Board levels on the Report and looked forward to their conclusions at the earliest possible time. Additional studies might be required on such elements as the organizational structure, field offices, operational missions, etc., but a programme of action was an urgent necessity.

199. Considering that the financial issues had been discussed extensively in the past, he looked forward to a consensus on the necessary improvements, especially concerning the arrears problem. Management should mobilize Bank-wide efforts to enable something concrete to be presented to the Nairobi Meetings. He was open to various options, either that of a special committee, a Task Force, or discussions within the framework of the ADB General Capital Increase. His delegation also favoured an early conclusion of the ADF-VII negotiations in an atmosphere of strong mutual trust among all the members of the ADB Group.

200. The **REPRESENTATIVE of the NETHERLANDS** commended the Co-ordinator's letter as a good reflection of the positive discussions held in London. His

delegation was fully committed to the contents of the letter and, depending on the reactions thereto, was ready to conclude the ADF-VII negotiations prior to the Nairobi Annual Meetings.

201. He recalled that his country had made some compromises in assenting to the draft outline of the letter because it considered it important to do so in order to achieve a common non-regional position. In the first place, it was necessary to give a very clear and precise guidance to Management about their position. Secondly, compromise was inherent in such an exercise. He, therefore, urged others to act in that spirit. He agreed with the Swedish delegate that it was desirable to have the regionals on board, and to let them know what the non-regionals demands were, but if they were confronted with constantly changing, divergent or new demands, or even a long list of demands, it might be difficult for them to determine the kind of reactions were expected of them. Deputies must work in concert as a donor group and find as much common grounds as possible. He thought that that goal had been achieved in the letter, but the latest interventions of France and Germany prompted one to ask if they, and possibly other like-minded delegations, were still prepared to proceed on the basis of that letter to conclude the negotiations in Nairobi. He assumed that they were, since they had subscribed to the letter, otherwise one was entitled to know what their reasons were.

202. The **REPRESENTATIVE of AUSTRIA** said that his delegation strongly supported all the institutions of the Bank Group. It also supported the Co-ordinator's letter, but after reading through the Knox Report, he had to signify the need to reduce the two-year period set for disposing of the issues of governance and voting procedures, organisation of staff as well as operational procedures and practices. The ADB Group should have a different voting structure on matters related to the ADF, particularly cost-sharing. The Bank Group President had promised, during the ADF-VI replenishment exercise that the cost-sharing formula agreed upon by Deputies would be presented to the ADB Board in order to personally ensure its adoption by the Board of Governors. It appeared, several years later, that the Board of Directors had taken a different decision resulting in parliamentary difficulties over the Seventh Replenishment. He, therefore, urged that effective actions be taken on the matter so as to demonstrate that replenishment decisions taken by donor countries were respected by the Bank.

203. He indicated that the safety net proposed the previous day was unacceptable, but was ready to consider other new ones or restructuring proposals appropriate for a bank. Of course, he supported the use of structural adjustment lending to performing countries. It also

seemed that a Blue Riband Panel was not the best procedure. Other better means should be explored to enable dialogue function better and more rapidly between the regionals and non-regionals.

204. The **CHAIRMAN** suggested that, since the object of his letter was to reach the other partners in the Bank Group - Management, Governors, Executive Directors - Executive Directors who so desired should give short reactions after the coffee-break.

The sitting was suspended at 5 p.m. and resumed at 5.15 p.m.

205. The **REPRESENTATIVE of BELGIUM** subscribed to the contents of the Coordinator's letter because it represented a compendium of recommendations, suggestions and wished previously expressed, but which had not always been heeded. He regretted that it was only after the signals had turned red that the urgency and seriousness of the financial situation of the Bank and its operational activities got examined with the attention that they deserved. If it was clear that not all the reforms could be carried out at a stroke, it was necessary to put in place what would be done at the earliest moment. His delegation could no longer be satisfied with the expressions of good intentions or promises. In that vein, only a determined commitment of all the parties concerned - regionals and non-regionals, Management and the Board - could assure satisfactory results.

206. The **REPRESENTATIVE of ITALY** recalled that a delegation had asked France and others if they were prepared to conclude the negotiations in Nairobi. His own authorities were not, in the first place, for political reasons: his country was going through political and parliamentary changes. There was not a government as such because the present government was only handling the current affairs, which did not extend to the replenishment of the ADF resources. The second and more substantial reason was that, as an old friend of the ADF, the ADB and Africa, he did not personally share the philosophy of the negotiations and the donors' report in its present form, because it concentrated only on arrears and debt. Far from denying the importance of the debt problem, he conceded that it should be addressed, but the present forum was the right one.

207. The letter had the merit of offering a clear picture of some of the donors' concerns, but it was not complete: it was necessary to highlight the problem of transparency in the procurement process, re-equilibrium in the voting power of the Bank because the "regional-non regional concept was unacceptable, the 2/3-1/3 ratio having been outdated.

For all those reasons, he recommended consideration of the re-equilibrium of the voting power, perhaps by stepping up the next capital increase negotiations.

208. He was dissatisfied with the letter in the sense that it limited itself to making recommendations without any possibility of controlling what would ensue in the months ahead. It would not be the conclusion of the Knox Report which he found inadequate. It was not enough for a high-level group to analyse those issues which involved the interests of members states. A group of member countries should, therefore be put in place for that purpose.

209. He concluded by indicating that he was unable to announce any subscription level.

210. The CHAIRMAN hoped that the Italian delegation's inability to go along with the possibility of concluding the negotiations in Nairobi would not apply to commitments made under the ADF-VI. He thanked Deputies for their frankness and balanced positions. He asked Executive Directors whether they wished to take the floor.

211. Mr. ABOUFADL (Executive Director of ADB), speaking on behalf of the other members of the Board of Directors of the Bank, thanked Deputies for having agreed to their attendance, as observers, in the current negotiations. Their presence, especially the regionals, was significant because they could grasp the substance of the major ideas underlying the discussions, and understand subsequently the interventions of their non-regional colleagues as well as their constraints. That would result, hopefully, in a greater cooperation within the Board of Directors.

212. Referring to the copies of the Coordinator's letter just received by Executive Directors, he noted that a cursory reading highlighted the technical problems whose solutions fell within the competence of Management and which could be implemented immediately. But there were also the political and even legal aspects of the letter which he would be gratified to see the regional Governors discuss among themselves and with their non-regional colleagues, given that the level of internal communication had not always been what it should be.

213. The **CHAIRMAN** suggested that some time be given to the Chairman of the Boards of Governors, the Bank Group President, and experts eventually up to the following morning at 9 o'clock. Deputies could, meanwhile, revert to the draft report and the Dutch delegation's proposals.

214. The **REPRESENTATIVE of the NETHERLANDS** proposed a new text to replace paragraphs 7 and 8, and that a new paragraph be inserted on blending policy, which was not envisaged at present, but nonetheless necessary. The text enunciated some principles which ought to be judged in the light of precise figures when available, particularly about the allocation of resources in the proportion of 90% to 10% between Category A and Category B. He hoped that Management would be able to consider, on the following day, the proposal on the basis of the principles outlined above.

215. The **CHAIRMAN** said that the Drafting Committee could be entrusted with the final wording of those principles, leaving out aspects that still required further discussions.

216. The **REPRESENTATIVE of the UNITED KINGDOM**, referring to the classification of Nigeria as a blend country, said that the prevailing situation in that country showed that it needed concessional resources and deserved to be treated as ADF-only. If that was not possible, another solution had to be found: Nigeria was a country whose per capita GNP was considerably lower than those of several other countries classified as ADF-only. It is the largest country in Africa south of the Sahara. To impose a ceiling on it was fraught with problems. So many elements needed to be taken into consideration.

217. The **REPRESENTATIVE of CANADA**, who did not wish to engage in a country-by-country debate at the present time, said that Nigeria was a blend country for the World Bank, and that account should be taken of its degree of creditworthiness. He felt that Nigeria should be classified in Category B.

218. The **REPRESENTATIVE of the UNITED STATES of AMERICA**, in reaction to his United Kingdom colleague, recalled that some time had been devoted to the discussion of what should be the appropriate guidelines for the allocation of ADF resources. His country would like Nigeria to receive its due from the resources of the Bank. Nevertheless, he favoured the application of a uniform application based on performance. He would like to know the origin of the issue of political pressures.

219. The **REPRESENTATIVE of NORWAY** endorsed the viewpoint of Canada and the United States. The problem at issue existed also in Asia for the bigger countries with low per capita income. Donors should be consistent in their decisions. He also wanted to know when the decision had been taken to classify the small island countries in Category A, whereas there were two in Category C. He questioned the relevance of the criterion.

220. The **REPRESENTATIVE of FRANCE** had wanted the same time as the Norwegian delegate, namely, to support Canada and the United States of America on the classification of Nigeria, and to intervene on the case of the small island countries. The "island" criterion should not be adopted. He also enquired about the authority for reviewing classification, adding that it was the responsibility of the Board of Directors to take a provisional decision if a major event capable of modifying classification occurred in a given country. The mid-term review of the ADF-VII and the report of ADF-VII would provide the opportunity to confirm the provisional decision.

221. The **REPRESENTATIVE of the UNITED KINGDOM**, responding to his American colleague's question about Nigeria and performance requirement, stated that he expected that country to meet that criterion, like any other country, in order to be entitled to its allocation. Classifying Nigeria in Category B would result inevitably in an insignificant initial allocation for the country. He thought that increasing the proportion of resources going to Category B would create a problem. Furthermore, if the performance of Nigeria, or another big country was unsatisfactory, difficulties would arise in the re-allocation of resources. Due to the relative poverty and the size of Nigeria, it required an adequate initial allocation, subject to performance.

222. The **REPRESENTATIVE of AUSTRIA** requested the Dutch delegation to explain the difference between the criterion of US\$543 and that of AID-only. The discussion might allow the three criteria to be changed to one.

223. The **REPRESENTATIVE of ITALY**, drawing Deputies' attention to the fifth line of the fifth paragraph, wanted to know the relevance of the reference to 90-0 under ADF-VI. He suggested the deletion of that reference made inside brackets.

224. The **REPRESENTATIVE of GERMANY**, quoting from the same paragraph the expression "allocations to relatively better-off countries ...", asked if the countries previously

belonging to Category B were now at the head of Category A countries, or if there were others in the latter Category which were now better off than the former Category B countries.

225. He suggested the following amendment to the last but one paragraph: "particularly when data change indicate the necessity of a switch in category".

226. As for the list of countries, he proposed maintaining the World Bank classification unless there were important reasons against it. But such reasons did not exist for Nigeria or for Namibia.

227. The **CHAIRMAN** recalled that the Dutch delegation was seeking to simplify the task.

228. The **REPRESENTATIVE of the NETHERLANDS** endorsed Canada's statement on Nigeria. He also recognized the need to harmonize the ADF classification with that of the World Bank, adding that his country's proposal stemmed from that imperative. He further agreed that the "the small island countries" criterion could be dispensed with, Cape Verde having already been classified IDA-only.

229. In response to Austria's question, he stated that Cameroon, Cape Verde, Côte d'Ivoire, Lesotho and Senegal were IDA-only countries, but with a GNP per capita above US\$543. Following France's suggestion, clarifications could be made during the Mid-Term Review. Not having well understood the Italian proposal, he was unable to answer it. As regards Germany's intervention, the "relatively better countries" were Category B countries, with consequently low allocation of ADF resources; with their currency devaluation, they had become IDA-only, and thus ADF-only. Their allocation would, therefore, be increased. That would result in a reduction of the allocation of countries traditionally classified in Category B. The aim of the operation was to introduce more equity by refining the classification.

230. The **REPRESENTATIVE of FRANCE** observed that six countries fell within the US\$543 margin and eligibility to IDA-only. They were Angola, Cameroon, Côte d'Ivoire, Cape Verde, Lesotho and Senegal, with notable differences particularly regarding the franc zone countries affected or not by devaluation. Angola, Lesotho and Côte d'Ivoire had previously been and would remain between the US\$543 limit and IDA-only category.

In contrast, Cameroon, Senegal and Côte d'Ivoire had become IDA-only, not on account of devaluation, but because of their per capita GNP reached either in 1992 or 1993, that is prior to devaluation. Those countries found themselves below the threshold of US\$543 after devaluation.

231. To respond to Germany's question about Namibia, he wondered whether a provision should not be envisaged for Category B countries stating in substance that "countries considered by the World Bank as insufficiently creditworthy to receive only non-concessional resources (i.e. World Bank/IDA blend countries").

232. He concurred with the United Kingdom delegation that there would be few countries in Category B, hence the possibility of an appreciable balance of un-allocated resources. It would, without doubt, be wise for a mechanism for trackling the situation.

233. The **CHAIRMAN** adjudged as acceptable the principle of a country classification mechanism to be revised in the light or subsequent developments. He would like that aspect to be referred to the drafting group.

234. The **REPRESENTATIVE of SWITZERLAND** said that he had not fully understood the criteria for the review of categories, and that he was not particularly satisfied with the proposed provisional country classification by the Board of Directors, subject to confirmation by Deputies during the Mid-Term Review. He thought that the ADF Board's responsibility should go beyond that. The criteria to be applied remained inexplicit. He wondered if Deputies should deliberate on them as concepts, or abide by the World Bank's definition in the introduction of differences in justified cases.

235. The **CHAIRMAN of the BOARDS of GOVERNORS** noted that it was not customary for the Chairman of the Boards to intervene at that stage of the discussions. But what he wanted to say was motivated only by the quest, to which all the parties concerned were committed, of bringing the ADB and the ADF together.

236. He seized the opportunity of his first intervention to thank the Swiss authorities for their warm hospitality and the arrangements made for the success of the negotiations.

237. He submitted for the Chairman's consideration the observation that the reaction of the regional member countries to the classification of countries could take the form of a

strong political objection which might be appropriate for neither the present forum nor the non-regional capitals. The regional member countries, shareholders of the Institution, were unable to borrow from the African Development Bank because its lending terms were too costly. He understood the reasons. But there were other aspects, among others, of sovereignty, from which standpoint it was difficult for countries which had invested in a bank to accept a situation whereby they could no longer obtain loans as a result of a decision by the African Development Fund. The matter could be referred to the Consultative Committee. Admittedly, the ADB should be a health bank, but there was also the aspect of sovereignty, and his wish was neither to worsen the position of the present countries of the continent nor to endanger the Bank.

238. He would like to see checks and balances put in place and applied. The sanctions policy was one. No matter how volatile, the issue of sovereignty was no less important.

239. Categories A, B and C might have got through, but it would be difficult to secure acceptance of an ADF-only Category; nor was the ADB and the World Bank. The proposal might entail long discussions. An alternative approach might make it possible to reconcile all the interested parties.

240. The **REPRESENTATIVE of the UNITED KINGDOM** pointed out that the present position of Deputies had been prompted by the fact that the checks and balances had not been working for some time, and that time was needed to redress the situation to their satisfaction.

241. He did not think that the treatment of Nigeria by the World Bank was comparable to others.

242. Finally, he wanted to know what Management thought of the requested harmonization of the practices of the ADF and the IDA.

243. The **CHAIRMAN** commented that paragraph 14 might offer another wording for Nigeria.

244. The **REPRESENTATIVE of NORWAY** thought that the statement of the Chairman of the Boards of Governors was the most succinct wording and the clearest demonstration of the tenor of the deliberations before the coffee-break. It was disturbing for

the future of the Institution to address problems from the standpoint of sovereignty, because such difficulties were not peculiar to Africa, Asia having also experienced them. In theory, Africa had had a means of overcoming the problem eight years previously when the Bank had been asked to adopt a blending policy, but that policy had, unfortunately, never been formulated.

245. Vice-President **LOUNES** (BAD) recalled that that very morning, several Deputies had voiced concern about rationalizing the criteria both at IDA and at other institutions similar to the ADF. The German delegate had, nonetheless, added that the rationalization should give way to some justifiable exceptions. But one should not discount two limitations in the present case: the movement from a B Category to an ADF-only Category (Cameroon, Côte d'Ivoire, Senegal) might lead to the very rapid appearance of net negative transfers, the previous profiles having involved significant volumes of disbursements; the second limitation was that the countries that were entitled to ADF/ADF Blend resources would have possibilities of close blending. In his view, the working group should reflect on those points before a definitive formula was decided upon.

246. The **REPRESENTATIVE of the UNITED STATES of AMERICA** noted that the Dutch delegation had offered a very reasonable approach. But the consensus should leave room for each individual delegation to express its point of view. The examples of classification mentioned by the Chairman and the French delegate based on per capital GNP underlined the concerns which had prompted the discussions. Furthermore, the United Kingdom's proposal, which deemed the Dutch proposal unacceptable, would result in the allocation of the whole of the United Kingdom's ADF contribution to one country. It seemed that Deputies should envisage the specific conditions of countries in their evolution during the three-year period. It was difficult to imagine that a country's GNP would fall from US\$1830 to eligibility to ADF, while maintaining the requisite conditions for an economic programme. There were several possibilities: leave the review of eligibility to either the Board of Directors, to the Board of Governors, or to Management. He hoped that Deputies would not have to study the individual case of each country. A policy of blending resources was required. In favour of the two unfortunate examples, he supported the Dutch proposal, and was ready to discuss a rational decision-making process to meet realities.

247. In conclusion, he indicated that he had fully understood the points raised by the Chairman of the Boards of Governors, and would like to see ways of overcoming the problems mentioned. The ADF did not have the resources to compensate the impossibility

of lending money on ADB conditions to countries which could not afford such conditions. Concern for the future of the Bank Group meant seeking to build on viable and well established financial rules. Regarding the Bank's net transfers for the years ahead, he recalled that there were reactions by shareholders before the different danger signals. Some had voted against the lending level, others had voted for, but all were now seeking solutions. He stressed that the Bank's problems were a reflection of the African continent's problems, and that all the parties concerned should, henceforth, sit together and reconcile their positions.

248. The **REPRESENTATIVE of FRANCE** endorsed the United States delegat's statement.

249. The **REPRESENTATIVE of GERMANY**, clarifying his statement made earlier that morning about classification, said that donors should be consistent with themselves and should not take different positions on the same issues according to the institutions concerned. Exceptions in specific cases should be justified in a convincing manner. For instance, the fact that a Bank Group member country was current in its repayments did not justify an exceptional treatment. Yet he could not find in the present situation a deserving case if the World Bank classification were excluded.

250. The **CHAIRMAN** requested the drafting group to examine the Dutch proposal, especially on the aspect mentioned by Switzerland, and on the possible changes in the classification to be effected in a balanced manner, the invitation to Management to specify certain data which might prompt a clear decision on other principle such as the 90% to 10% ratio between Categories A and B; and eventually a general debate on the limits of certain country allocations were certainly useful, but it would be wrong to attempt to study the individual case of each country.

The sitting rose at 6.40 p.m.

T/ST

PROVISIONAL SUMMARY RECORDS OF THE SECOND SITTING

held at "Salon Royal", Hotel Bellevue Palace, Bern,
Switzerland, on Friday, 22 April 1994 at 9.20 a.m.

- CHAIRMAN** : **Mr. Ruud TREFFERS**
Deputy 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
- CONTENTS** : Statement by the President of the African Development
Group on the Knox Report
- : Statement by the Chairman of the Board of Governors on
the Knox Report
- : Any Other Business.

STATEMENTS BY THE PRESIDENT OF THE BANK GROUP AND THE CHAIRMAN OF THE BOARD OF GOVERNORS ON THE KNOX REPORT

251. The **PRESIDENT of the BANK GROUP** explained that the Co-ordinator's letter had been received in the Bank by fax on Friday, 15 April 1994, when he had immediately referred it to Vice-President Lounes and other relevant officers, most of whom had then been preparing for their weekend travel to Bern. It was only on Monday, 18 April, that the Vice-President had actually got a copy, and he (the President) had been able to read his copy along with the one addressed to the Chairman of the Board of Governors after his arrival in Bern. He had then immediately set to work with his colleagues, studying the contents and preparing his reactions with great care. He could, therefore, state with equanimity that he was very pleased to be able to respond to Deputies at that moment.

252. What was at stake was of capital importance, and on it would depend their decision as to whether or not to move forward. At the same time, he had to be as temperate and clear as possible, because his statement might possibly commit Management and even venture into areas outside its responsibilities.

253. He then recounted the gist of the frantic telephone calls which he had received from Mr. Ted Roosevelt III of Lehman Brothers and Goldman Sacks after the previous day's sitting about the anxiety of the holders of ADB bonds to get rid of them at any price because the level of arrears appeared to have reached such an alarming level as to seriously endanger the financial viability of the Institution. The matter at issue was obviously very serious indeed. Management appreciated that the 15 April letter had been written in a clearly constructive spirit but, as sometimes happened in such cases, the message and form of the message seemed to have deformed the reasoning behind the message, one of the initial consequences of which was now emerging.

254. That said, he confirmed his previous day's remark that it was impracticable to make a meaningful distinction between the ADF and the ADB or between their financial and operational policies. The only problem was that they were two separate legal entities which unfortunately had not had the opportunity of simultaneous replenishment negotiations, a wonderful coincidence that was the practice in other organizations. Thus, there was need to determine how the issues should be addressed in a complementary manner. That would not necessarily imply uniformity, but a harmonious, complementary and efficient way of attaining the objectives of the Bank Group.

255. Of course, the regional Governors would also contribute to the debate. In that connection, it was astonishing to hear questions about the 1994 lending level and even the intention of raising the matter at the Board of Governors on the pretext of false representation of the proceedings of the Board of Directors. If the concern were about the substance, and not a semantic exercise, he would put premium on ascertaining the substance of the Board's deliberations. He recalled having worked in concert with the Board over several days and sittings, to reconcile the different points of view in the Board in order to muster maximum support among Executive Directors for the Bank's lending programme. That exercise had started during the budget deliberations and had continued up to the last Board meeting when the programme - a compromise document worked out by one regional Executive Director and one non-regional Executive Director - had obtained the active support of the twelve regional Executive Directors (ADB Executive Directors) who could constitute already a majority, and three or four non-regional Executive Directors. In terms of voting, the support for the lending programme was nearly 80%.

256. So much patience and time had been devoted to achieving such a result in order to forestall the tendency of referring annually to the Board of Governors an issue that could and should be resolved definitively by the Board of Directors. Considering that the habit of picking up a particular issue for heated discussions at the Annual Meetings was undesirable, and that the compromise in the present case had been worked out without any member of Management or staff writing one word about it, there seemed to be no question about the decision being a consensus.

257. In his opinion, a proposal that received the backing of all the members of one side, and of some of the members of the other side of a bicameral executive organ, was nothing but a compromise approval, or as was customarily applied to the Bureau and Board of Governors, "a large majority". The heart of the problem was what weight should be attached to the voice of two or three Executive Directors who did not take part in a decision taken by the majority of Board members. Should that decision be reversed on account of the dissenting voice or should Management be accused of bending the rules? The matter should be tackled with all the gravity that it deserved. If it were going to be raised for discussion at the Board of Governors, then the discussion would be open, and Management would listen, but not have to answer questions.

258. Reverting to the more substantive issues of financial policies and project quality (leaving out the question of governance which had been added to the terms of reference of

the Task Force in August 1993), he emphasized that Management's firm commitment to a follow-up of the Knox Report's recommendations was evidenced by the fact that it was his own personal initiative that had brought about the appointment of Mr. Knox and his team. Management had awaited the submission of the report before placing it in its historical context.

259. The idea had originated from one of his regular meetings with staff held in December 1992 during a diagnosis of the Bank Group when the need for a qualitative change had been recognized, given that there would never be adequate resources to meet Africa's needs and that the repercussion of the Waphenhaus Report on other institutions would necessitate commissioning a similar study for the ADB Group. It was not an accident, therefore, when a budget line for a consultant had been included in the Presidency's budget, based on the initial approach of recruiting a consultant who would be supported by Bank staff. The first candidate, Mr. Fritch, who was then in the process of completing his term with the EEC, and could have performed the assignment almost free of charge, had declined, after an exchange of correspondence, on the ground that he was more conversant with policy reforms than project quality. The quest for another expert was enhanced by Executive Director H.M. Schmid's suggestion of Mr. Knox during a joint mission to Lisbon and a visit to Baroness Chalker, the British Minister for Co-operation, when he had informed her of Management's plans about project quality.

260. The purpose of the above historical background was to assure Deputies that there could be no doubts whatsoever on the commitment of Management to follow-up the recommendations of the Knox Report since that study had been commissioned at the initiative of Management which wanted to see how the reflections on the future of the Bank could be extended, especially in terms of financial and operational policies launched in 1989 during the 25th anniversary with the study carried out by the Committee headed by Mr. Mamoun Beheiry, whose members included Mr. Robert McNamara.

261. It was also worth recalling that both project quality and financial policies were the principal focus of his 1994 annual statement in Abidjan. He had then drawn attention to the necessity to do something about project quality and indicated the lines of action on the financial policies. It was as a result of planning, and not mere coincidence, that it was possible to have a document on the review of financial policies in June, one month after calling in Mr. Knox. The review was based on an approach of attending to the most urgent

things first, by drawing from existing studies a document for consideration of the Board without seeking additional support or studies.

262. He explained that the issue of net income targeting was still under consideration. It had been thought that the right approach consisted of reviewing the lending charges, reviewing the spread which was judged inadequate because income was the bottomline of the profit and loss account. Hence, targeting income did not mean playing on one element to the neglect of the others. A Management meeting had been called immediately in July 1993 as a result of which it was agreed that attention should be directed at budget control, by capping expenditures on telephone bills, first-class air travels, etc., and giving appropriate guidelines to the Financial Planning and Budgeting Department. The concept of re-introducing fees had been suggested, but there again one had to ponder the bottomline. What was the rationale for imposing lending charges on ADB loans? Was it to ensure the recovery of investment and make a reasonable profit, or to turn the ADB into a commercial institution and look for maximum profit, thereby drastically reducing the number of prospective borrowers. There was a limit to what one could do to make up for reduced loan loss provisioning by increasing the spread so that the more creditworthy borrower would pay for others. Should the policy aim at having the Bank's lending charged reflect its borrowing costs and having a reasonable spread for the administration of the Bank? Or was it to make for the differences from other places which were outside the control of the creditworthy countries? That was another issue in which Management was not at all avoiding anything, but was prepared to look at things in a rational manner.

263. The June document had not been brought back to the Board of Directors for approval since no Board could have adopted it as a package because it embodied such a variety of issues ranging from country risk exposure to net income targeting, capital adequacy and increase. It would only be relevant to the extent that it served as a booklet on the financial policies of the Bank as the individual chapters of the financial policies would have been adopted.

264. Management had been gratified by the congratulations addressed by the Board through the voice of Executive Director Reding, on the implementation and monitoring of the risk policy in Tunisia. Yet, even now, despite the regular meetings on the subject, the Bank had not yet been able to master everything. There was need to remedy the problem of conflicting interests in the country risk exposure policy. For instance, he had been advocating the creation of Mexico and Brazil type of countries in the ADB on the lines of

the practice in IADB and AsDB where certain borrowers were allowed to overshoot their ceilings. While conceding the importance of country risk exposure, he wondered which of the three institutions in the ADB Group would provide development financing when a majority of ADB-window recipient countries were eliminated. There again Management felt that further reflection was necessary before proposing something acceptable. He would come later to the designation of ADF-only category countries.

265. The purpose of the foregoing background was to indicate that some of the issues outlined in the Co-ordinator's letter were within the purview of Management. They had not been neglected, but like SAPs, certain policies needed to pass through trial and error before attaining sufficient refinement for formal adoption. Even then, he made it clear that Management had no particular problems about the circulation of policy documents, especially on country risk exposure, poverty alleviation guidelines, and review of the adequacy of loan loss provisioning, all of which were embodied in the Board's Resolution. He had in fact tentatively suggested 4% to his senior staff, but the Bank had to move gradually, and he had to be guided by the assessment of his experts.

266. Furthermore, in order to forestall any misunderstanding or misinterpretation, he had clearly anticipated in his previous year's statement a significant drop in the net income as a result of the application of the newly adopted policies. The decline was, therefore, a voluntary decision by the Board of Directors, acting on Management's recommendations.

267. Before responding to the Co-ordinator's letter and outlining Management's follow-up plan of action on the Knox Report, he drew Deputies' attention to the thrust of the interview which he had given JEUNE AFRIQUE during his previous year's official visit to Switzerland. In essence, he had warned the regional members in the clearest language against the serious danger in which they were likely to put the financial position of the Bank by treating it like their national development banks where they could get funds without thinking of repayment. That message was relevant to the current discussion about arrears because it showed Management's constant concern on the matter. Management had deployed a series of initiatives involving the interventions of the then Chairman of the Organization of African Unity and his Minister of Finance, who was then Chairman of the ADB Board of Governors, as well as President Hosni Mubarak of Egypt and President Arap Moi of Kenya and his Minister of Finance, to sensitize African leaders to the necessity of giving the Bank Group a privileged treatment in the settlement of their obligations.

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268. He seized the opportunity to express his deep gratitude to Deputies for their support and understanding in the matter, and to the World Bank and the IMF for agreeing to share their relevant documentation on African countries with the ADB Group and inducing them, especially Gabon and Comoros, to give ADB priority in the settlement of their arrears. It was important to applaud and place on record the significance of such gestures of co-operation and solidarity.

269. In a recent exchange of views with his Washington colleagues on the issue of IDA-only or ADF-only category, they had recognized the difference between their situation and the ADB's, chiefly because they had only two IDA-only African countries, whereas ADB had nearly forty. The problem was, therefore, how to transfer resources to those countries. Several ideas had been put forward, including those of establishing a trust fund or a fifth dimension, both of which were laudable. He himself had just returned from an official visit to Saudi Arabia where he had gone with detailed working papers to seek help for the establishment of an interest subsidy fund, given the scarcity of concessional resources and the likely modest level of the ADF-VII replenishment. Management wanted to alleviate the burden of interest rates on borrowers from the ADB window. Another major concern, which had been confirmed only that morning, was the imminent admission of South Africa to the Bank. In spite of the fact that it was more creditworthy than many of the Sub-Saharan countries, its admission might present the Bank Group with the same problem as Namibia in that it might be unable to intervene immediately or significantly in favour of the majority of the population there, unless an interest subsidy plan could be introduced to enable the Bank finance social sectors there with the support of the Bretton Woods institutions and the international community.

270. Furthermore, Management recognized the fundamental problem which motivated the recommendation of IDA-only or ADF-only category. The idea might not have taken shape at the present time if each of the Category A countries had behaved like Ethiopia, Mauritania and Ghana in regard to their financial obligations to the ADB, if there had been no arrears at the present time, or need for loan loss provisioning or worries about the financial situation of the Bank. However, the problem must be viewed in terms of its substance, underlying philosophy, orientation and the desired goal. It might well be that the real problem was really one of creditworthiness or solvency for lack of financial credibility. It was up to Deputies to appreciate the situation, but of all the recommendations made, the one about the ADF-only could not be adopted by Management without the prior judgement of the Board of Directors in the light of the principle that good money should not be thrown

away for the bad one. It should also be understood that one certain consequence of denying the beneficiary countries access to the ADB resources was negative transfer to some 13 countries likely to be affected, since the ADF-VII replenishment level was not expected to be high enough to meet the needs of the African continent. That eventuality was far from the objective being sought.

271. Mr. Knox had formally presented his Report to the Board of Directors on 15 April 1994 and Management had promised to provide its plan of action on the implementation of the Report to the next meeting. Management considered the Report generally positive. It had rightly highlighted some of the points raised by Management in Dakar, and proposed remedies concerning: project quality and overall governance, particularly the divergent interests which Management had to contend with; the existence in the Bank of sound lending policies and procedures which were not consistently followed through; the need to upgrade the Bank's presence in the recipient countries which even wanted it to attend negotiations and policy dialogue; and restructuring in terms of placing emphasis on either countries or sectors. It was much more important to note that the Report likewise appealed to all partners of the Bank Group, i.e. the Board of Governors, the Board of Directors, the President, Management and staff, for collective responsibility to ensure success in the bid to improve the overall performance of the institution.

272. To that end, Management had distributed the Report to all the organs of the Bank, and would continue to sensitize all concerned to the recommendations therein. That would be followed by a detailed plan of action on the follow-up of the recommendations through an enlarged inter-departmental committee for disseminating the dimensions of project quality among all the staff in the Bank. In that context, he pointed out that recommendations which fell within the purview of Management and could be immediately implemented without additional budgetary resources included all issues bearing on projects such as the revision of the format and content of the EPCP and the CSP, for which a 32-point plan of action had been formulated. It was up to the Governors to decide on the other recommendations like the establishment of a high-powered review panel, though Management was prepared to furnish ideas if solicited.

273. That was the outline of the commitment of Management to the implementation of the recommendations of a study commissioned by Management. It was not intended to put the Report on the shelf, but rather to utilize it as an instrument for improving performance,

and in particular, to respond effectively to the needs of the African continent. Therein lay the tribute which Management was paying to the Knox team.

274. There were, inevitably, problems of procedure. Here was a Report now at the disposal of all, even around the table. It had been thought appropriate, for reasons of procedure, to make it available to all the Governors, and to let the Board of Directors take note of Management's implementation plan. But, ultimately, the key message of the Report was its formal appeal for collective support of the Bank Group particularly by the African countries, which had a less consultative forum, to give more serious attention to their institution. As he had said earlier, it was up to the Governors to decide at the Nairobi meetings on the other issues in the Report that came within their authority in order to take the lead in the implementation of all its recommendations by starting with those that could be disposed of immediately and programming that of the long-term measures.

275. In conclusion, he assured Deputies of his preparedness to expatiate on any aspects of his speech.

276. The **CHAIRMAN** thanked the Bank Group President for his comprehensive reaction to the issues enumerated in his letter, despite the fact that the wording might have been intemperate in some places. Before drafting the letter, the Deputies had fully recognized the importance of the various measures previously taken by Management on the issues at stake, but it was a genuine concern about certain operational and financial indicators that had prompted them to appeal for additional measures. They also realized that the task was a difficult one and needed the partnership of all the interested parties. He, therefore, commended the President for the manner in which he had spelt out the course of action which Management planned to take up to the time of the Nairobi Annual Meetings. What was essential was to reach out to the Board of Governors, the Board of Directors and Management on the unity and future agenda of the Bank Group.

277. The **CHAIRMAN of the BOARD OF GOVERNORS** expressed his gratitude for the opportunity of responding to the Co-ordinator's letter. Taking the floor immediately after the President's eloquent speech, he intended to restrict himself to four major aspects of the letter. But before doing so, he would like to thank the Swiss Government for enabling him to renew his friendship with so many of his colleagues who had recently concluded the

restructuring negotiations on the Global Environmental Facility and to outline the material arrangements for the celebration of the ADB 30th anniversary and the 1994 Annual Meetings in Nairobi.

278. He recalled that since the last Annual Meetings in Abidjan he had been attending several meetings of the Bureau of the Board of Governors, the Consultative Committee and the ADF-VII replenishment negotiations. He had noticed a variety of feelings ranging from goodwill, despair, mistrust, anger, frustrations, courage, and to assurances of hope and commitment for the ADB Group. He would like to focus on the positive hopes for the ADB as an instrument for transferring resources for development financing in Africa. The negotiations for the ADF-VII replenishment were proceeding against the background of those feelings and at a time when Africa continued to experience drought, famine and starvation, civil wars, refugees, transition to political multi-party political democracy, balance of payments deficits, falling commodity prices, increasing debt burden and debt arrears, and implementation of structural adjustment programmes - factors which called for real resources net inflow to enable Africa carry out its development programmes.

279. The Co-ordinator's letter was itself a response to an appeal made by the Bureau of the Board of Governors in line with their determination to meet regularly and tackle problems facing the African Development Bank Group.

280. He reminded Deputies that negotiations on the ADF-VII replenishment were taking place within the background of the disastrous consequences of the shortfall from the ADF-VII, especially having processed projects without financing. That was why the Bureau of the Board of Governors had thought it necessary to send a written appeal to Deputies to speed up the finalization of the negotiations, given that the ADF-VII should have come into effect on 1 January 1994.

281. He then proceeded to give his preliminary reactions to the Co-ordinator's letter which, as in the case of the Bank Group President, had reached him just as he was leaving Nairobi for Bern. Therefore, he had not had the benefit of consulting with his regional colleagues beforehand. In view of the material difficulties of doing so before the Annual Meetings, it would be unfortunate to impose such a condition for launching the ADF-VII in Nairobi.

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282. On the broad understanding that the Co-ordinator's letter was an invitation for more effective dialogue, he informed Deputies that the deliberations of the Consultative Committee had been very constructive, that its members were unanimous and unequivocal in one conclusion, namely, that they wanted a financially strong and operationally sound African Development Bank and that a draft resolution to that effect would be tabled in Nairobi. He, therefore, assured Deputies, as Chairman of the Bureau of the Board of Governors, that all the Governors, particularly the regionals, would be apprised of the major issues raised in the letter, with a strong recommendation that they should take positive steps thereon in Nairobi and thereafter. That was the first decision he had agreed upon on the previous day with his colleagues on the Bureau.

283. With regard to some of the expressions used in the letter to describe the financial position of the Bank, he admonished against making statements in an open letter which were likely to be deformed in newspapers to the fatal detriment of the Bank. It was advisable to avoid doing anything on such a sensitive issue which might unwittingly seal the fate of the institution.

284. He reaffirmed his pledge, not only as a shareholder, but also as the current Chairman of the Board of Governors, to ensure that the regional Governors were actively involved in a constructive dialogue on the issues raised in the letter. As a first concrete rejoinder to the letter, he proposed the formation of an Ad Hoc Committee of the Board of Governors with a mandate to address the entire agenda of the problems facing the ADB and the ADF, the key twin institutions of the Bank Group, including capital adequacy and other long-term issues. The Committee, whose tenure would be determined on the basis of its terms of reference, could be assisted by a technical Blue Riband Group, as proposed by the United States, but the budget implications should be carefully considered and spelt out. The Blue Riband Group would proceed within a period of time to provide the Committee of Governors with professional ideas related to Governance, Re-organization of the Bank, and Financial and Operational questions directly or indirectly related to the broader questions of the future of the Bank.

285. The creation of a category of ADF-only countries was one of the most important issues in the letter. While understanding the rationale behind the concept, he was duty-bound, as an African Governor and shareholder, to counsel the greatest circumspection possible in the matter because it lay at the heart of the Bank Group as an instrument of self-reliance among its African shareholders. It also was fundamental to the cohesiveness of their

membership of the institution. Therefore, the question of eligibility to ADB borrowing had to be addressed in a scientific and calculated manner. For the bottomline is not so much the poverty of a given country, but its creditworthiness. It should be used not merely as a selective instrument to safeguard the integrity of the Bank but also as a mechanism for incorporating broader considerations for countries that were growing and were able to honour their obligations to it. On the other side of the ADF-only balance sheet was the aspect of the resources available. The World Bank had a large reserve of resources for its IDA-only scheme, whereas the resources available to the ADF were yet to be determined. Besides, the proposal bore a potential danger to the continued existence of the ADB in that it would result in 38 ADF-only countries; 5 Blend; and 8 ADB-only, including the island and smaller countries. By leaving the Bank-only category 3 heavy borrowers, the Bank would no longer immediately require capital increase but would even lose its raison d'être since it would have no borrowers.

286. The question of Project Quality which was seriously addressed by the Knox Report was a pressing one. Since the Board of Directors had started consideration of the Report, he looked forward to officially receiving a copy in the coming weeks. He assured all the Deputies present that the document would receive the prompt and careful attention it deserved on the forum of the Governors of the ADB Group and probably at that of the proposed Ad Hoc Committee. Utmost efforts should be made to study the Report and ensure that the necessary actions were taken to enable the strengthened institution to better respond to the challenges in the years ahead.

287. He stressed that the African shareholders were deeply concerned with the problems of arrears for the ADB, and confirmed the Bank Group President's statement that the matter had been handled at the highest level of African leadership through personal contacts and correspondence. The chronic defaulters had been warned that the non-settlement of their arrears was one sure way of killing the ADB. The Consultative Committee had also dealt with the matter at length. He, therefore, unreservedly subscribed to Deputies' concerns and the belief that it was incumbent on African Governors to find a definite solution thereto. In addition to getting the proposed Ad Hoc Committee tackle the matter, the countries concerned would be asked, in view of their longstanding unfulfilled promises, to sit down with the executive organs of the Bank to work out a satisfactory mechanism to eliminate their arrears over a reasonable timeframe.

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288. On the other hand, he underscored the series of positive steps taken by the different organs of the Bank which were yet to produce tangible results. In the following week, he would relay the concerns expressed in the Co-ordinator's letter to all the regional Governors with a recommendation to give them serious attention up to and beyond the time of the Annual Meetings. Nevertheless, he asserted that to stop borrowing was not an appropriate answer as that would imply relinquishing the battle for development. The Bank's problems were within the abilities of its shareholders to resolve, there was no need for precipitate action, but for calculated and measured approaches that could contain the situation within a reasonable time and lead to a stronger Bank. Consequently, the Nairobi Meetings should be an occasion for reflecting on those problems in good faith and in a spirit of consensus and co-operation so as to adopt solutions reflecting their common concerns for the ADB Group.

289. One of the issues related to Governance was voting. It was governed by the provisions of the ADB Agreement. It required time for reflection and he requested Deputies not to foreclose such an opportunity during the preliminary discussions on the GCI-V general capital increase, hopefully in Nairobi, by linking it to the completion of the ADF-VII replenishment negotiations. The second problem was the functional relationship between the Presidency and the Board of Directors, each as an institution entrenched in the ADB Agreement. Although the Bureau had taken measures to contain the situation, the matter had been reopened by the Knox Report. On behalf of the 76 ADB Governors, and for the information of the ADB Group President and Executive Directors present, he pointed out that the matter was within the competence of the shareholders; that the shareholders did not want any misunderstanding at that level; and that the President and the Executive Directors were the employers of the shareholders. He assured Deputies that the Bureau was convinced that it had taken steps to contain the situation. However, Deputies should kindly advise him of any issues that they thought was related personally to the ADB Group President or directly concerned Executive Directors, to enable him relay them to his fellow Governors.

290. In conclusion, he repeated the appeal in his letter to Deputies about: the effects of the shortfall in the ADF-VII; the fact that the ADF-VII was already late; the knowledge that it was within the ability of those present to promote and sustain the Bank or run it down; his belief that it was not in anybody's interests to do away with the Bank; and his hopes for a strengthened ADB.

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291. The **CHAIRMAN** thanked the Chairman of the Board of Governors for having successfully aroused Deputies' interest about Nairobi, and looked forward to the follow-up of the substantial issues at stake. He appreciated his willingness and determination to convey messages of mutual concern to African fellow Governors. That was an important step in the effort to reinforce dialogue between Management and its members on fundamental issues relating to the future of the Institution.
292. The **REPRESENTATIVE of ITALY** said that he reserved the right to give a written statement on the question of the pool of resources for the commitment capacity of the ADF.
293. The **REPRESENTATIVE of the UNITED STATES of AMERICA**, commenting on the ADB Group President's statement, said his delegation had noting to do with the call from Mr. Roosevelt of Lehman Brothers about the sale of ADB bonds. He felt that that information should not be over or under-stated. But it placed on Deputies the obligation to leave Bern with a fairly forward-looking action programme which went beyond the context of the current replenishment negotiations. They could not afford leaving Bern with a sense of confusion about the next line of action. The negative repercussions could possibly not be remedied within the four days allocated to the Annual Meetings in Nairobi.
294. His dual role of representing his Governor on the Board and the Bureau of Governors and participating in the replenishment negotiations, was a difficult one, but it had enriched his understanding of the problems under consideration. He felt that it would be necessary to go to Nairobi with a set of pragmatic suggestions and a balanced package. There should be something in that package for everyone. Such a package could be enshrined in a comprehensive Resolution using the ADF-VII replenishment as a central theme.
295. But whatever diplomatic language was devised, it was not possible to ask regional and non-regional members to address their positions without mentioning what they considered to be the basic problems. There seemed to be no viable alternative, at the present time, to creating an ADF-only Category, Blend Category and ADB-only Category, which could be cushioned with a package consisting of initial discussions on the Bank's capital adequacy, and capital replenishment possibilities. He had confidence in the idea advocated by the Chairman of the Bureau of an Ad Hoc Committee of Governors or high-level review group and his statement on committing the defaulting regional members to work-out programmes to eliminate their arrears to the Bank. All those elements could be legislated into the Resolution

in Nairobi, drawing from the OECD Group's letter and the key financial indicators highlighted in the Knox Report as well as the suggestion about a stand-by unfunded debt mechanism. Thus, on the positive side, there had been discussions on capital adequacy and prospects for ADF-VII replenishment; unfunded stand-by debt mechanism designed not necessarily to gratify Deputies but to keep people like Teddy Roosevelt quiet and sell their bonds.

296. He conceded that there had been some confusion about the meaning of an unfunded stand-by mechanism. He then proceeded to illustrate the working of the revised outline of the scheme which he described as essentially dropping interests flow and exchanging assets between the ADB and the ADF.

297. He observed that the issue of the ADB lending programme was a source of unease among Deputies around the table. It would have to be addressed along with the creation of an ADF-only Category. He was certain that unless a satisfactory formula was found on both issues, possibly in the diplomatic and pragmatic manner that the Bank Group President had adjudicated in the past, they were unlikely to subscribe to any action necessitating the injection of ADF resources into an ADB stand-by debt mechanism. In the same vein, he agreed with the Chairman that the decision-making process in the Board of Directors would become a central issue, as Governors embarked on capital adequacy discussions, leading presumably to a capital increase. The non-regionals were likely to press strongly for extending the voting arrangements in the ADF to the ADB. His own view favoured maintaining the present one third-to-two thirds allocation system, but not the voting system.

298. As someone who had been privileged to attend the meetings of the Board of Directors, the Bureau of the Board of Governors, and the ADF replenishment negotiations, he reckoned that the Bank was moving towards a watershed in Nairobi. The agenda he had sketched out was a constructive approach when taken along with the suggestions of the Chairman of the Bureau. He repeated his appeal that Deputies should end their meetings with a positive message and proceed to Nairobi with iron-clad assurances that the future of the Bank was bright and that a consolidation was being put in place to ensure that the goals set for the Institution would be achieved in the near future, or within the next 12 months.

299. The **GOVERNOR for MAURITANIA** thanked the Swiss authorities for their warm welcome and the excellent arrangements made for the present meeting.

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300. He wholeheartedly endorsed the comprehensive statement of the Chairman of the Bureau of the Board of Governors. He had listened attentively to all the interventions since the beginning of the meeting, particularly on the concerns expressed in the Co-ordinator's letter on the future of the Bank Group and the reactions of the Bank Group President thereto; references to the Bureau's earlier written appeal on the same concerns; and the United States representative's opinion that the ADB should henceforth be viewed no longer as an African institution but as a common institution for both the regional and the non-regional members for the development of the African continent. However, one should not ignore the specific nature of Africa's problems.

301. The Bank Group President had exhaustively addressed the issue of creating ADF-only Category and the peculiar needs of Groupe A countries. It would be unfair to penalize those countries that were honouring their obligations scrupulously and had demonstrated their capacity to absorb resources from the ADB and the ADF. Nor should one under-estimate the increasing number of countries that were entitled to the ADF borrowing or the necessity to take into consideration the peculiar position of countries like Nigeria and the shortfall in ADF-VI, all of which justified a higher replenishment level. His country was one of those that felt that every borrower country should honour its obligations. It likewise appeared legitimate to expect all State Participants to honour commitments they voluntarily entered into. The failure to make good the shortfall in the ADF-VI resources had created serious difficulties for both the Fund and the prospective borrower countries whose processed projects were left in abeyance for lack of resources.

302. It was also necessary for the Bank Group to conduct its operations as a healthy financial institution, particularly in relation to country creditworthiness. The right solution was not to abandon a country when it was unable to meet its obligations, but to formulate a viable recovery plan. Similarly, it was not consistent with good banking practice to prevent countries like Ethiopia, Ghana and Mauritania, which were current in their obligations to the ADF, from borrowing from the ADB. Instead, a more coherent approach should be considered.

303. Furthermore, he agreed that prompt precautionary measures should be taken by the shareholders and the relevant organs of the Bank Group to redress any negative signals that might have been perceived about its financial position.

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304. Finally, as a member of the Bureau of the Board of Governors, he confirmed its constant desire, as outlined by its Chairman earlier, to respond to the concerns of all the members of the Bank Group, particularly about the credibility and the viability of the Institution as well as the prevailing political and financial conditions.

305. The **CHAIRMAN** said that the Deputies had to contend with time constraints. The President of the Bank had stated that no questions were being raised in the financial markets about the Bank's situation. The letter that had been discussed was aimed at getting the Bank out of the woods. Speaking as the Acting Director-General of Cooperation in the Ministry of Foreign Affairs of his country, he felt that Deputies, as representatives of the Bank's member countries, should impose conditions of a strategy for the Nairobi Meetings, culminating in assuring a future for the Bank. They had to inform their authorities, in confidence, and send forth a positive message from Bern.

306. He recalled that the United States' representative had opted for a practical approach, inevitable but painful for most of the delegates. The Chairman of the Boards of Governors had outlined the actions he intended to take towards his regional colleagues, while the Bank Group President had indicated for his part what the Bank had done and would continue to do in that direction.

307. He asked the delegations what they thought were the minimum conditions necessary for the Nairobi meeting to consolidate the Group's strategic position. As a development expert, he realized that the challenges were immense and that reality must be borne in mind if they were to play their role. They should broaden their perspectives, put aside their responsibilities as delegates, consider themselves as shareholders of the Bank Group, and devise measures to be taken to ensure the success of the Nairobi meetings.

308. The **REPRESENTATIVE of NORWAY** considered that the first condition was the one expressed by several delegates, including that of the United States, that these negotiations should be concluded in Nairobi. In that context, two critical problems arose: the manner in which solutions could be found to meet the substantial resources needed for strengthening the position of the Bank, and the issue of ADF-only category. The second condition was for Management to show the progress alluded to by the Bank Group President. That progress had to be demonstrated, or the determination of accomplishing it given immediately, possibly before the Nairobi meeting. The third element was that the present discussions and the forthcoming general capital increase be perceived as part of a continuing

process. To be constructive and to resolve problems raised, it was necessary to keep an open mind on the timing of the capital increase. A period of two years appeared to him too long and likely to worsen the situation. The fourth challenge concerned the Regionals who should deploy efforts to liquidate their arrears, without which the replenishment of the ADF resources and the general capital increase would be put in danger. But there, efforts could be made before Nairobi. Moreover, the regional countries should ponder the problems caused by the existence of an ADF-only category. They should move away from the idea that the mere fact of honouring their obligations to the Bank justified eligibility for its resources.

309. It was likewise important to realize that net transfers from the Bank to the borrowing countries could not always be positive. It was a natural process that should be recognized. Finally, the President had sent a positive signal on the Knox Report by noting that the report constituted a challenge for Management and that it involved the participation of all.

310. The **REPRESENTATIVE of SWITZERLAND** felt that Nairobi should mark a new departure, and that the ADF-VII negotiations should be concluded at the present time, with the launching of the general capital increase, which would be accompanied with a series of measures to improve project quality and the financial position of the Institution. The two obstacles to be overcome were the creation of an ADF-only category and the mechanism for debt management. In connection with the first, the issue of creditworthiness and that of moving from category A to B needed to be studied. It would also be useful to render flexible and equitable the mechanism for the distribution of the ADF resources, but on the basis of performance criterion. On the other hand, it was inevitable that the countries moving from category B to A should experience net negative transfers (Côte d'Ivoire, Cameroon, Senegal). The possibility of these net transfers being compensated by other instruments or institutions should be considered. In this connection, he made reference to the possible modest role of the Fifth Dimension.

311. With respect to the debt management mechanism, there was at present no consensus on the necessity and the modalities of such a mechanism. The donor community should take note of that fact.

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312. The contacts with the African governments should be intensified between now and the Nairobi meetings. The draft resolution should be worded in concrete terms so that they could be ratified by the Governors without difficulty. Adequate time should be allowed for the meeting of the Steering Committee in Nairobi so that it could work without too much pressure. The reduction of the volume of arrears before the Annual Meetings would be a very important gesture.

313. The general capital increase process should not be long, and should be pursued in conjunction with the issues of financial policies and governance. The duration of the process should not exceed one year, and completed at the 1995 Annual Meetings. The increase should not necessarily be large, because if the number of the Bank's clients were reduced, the level of loans would be reduced also and the ADF would not offset the shortfall by a larger volume, as one could not reasonably assume that the states would suddenly have the resources which they said they did not possess.

314. The **REPRESENTATIVE of CANADA** shared most of the previous speakers' viewpoints. What was expected of the forthcoming Annual Meetings was to provide the financial markets with the assurance that the Bank was healthy. Wondering why the financial markets were nervous about the ADB, he replied that it was on account of the financial viability, the decline in income indicated by the Bank itself, and the observers of the Bank. That nervous state was probably accentuated by some recent events such as the departure of the Director of the Treasury. To allay this nervousness, the financial position of the Bank should be strengthened on a long-term basis, and the capital resources improved through a general capital increase. Since the ADF-VII negotiations were taking a long time, the capital increase should not be rushed, because that might perhaps pacify the markets for only a short time. In the meantime, it was necessary to support the Bank Group. The acceleration of the ADF-VII negotiations would not necessarily calm the nervous state of the markets, unless it was backed with the requested reforms. In the circumstances, he recommended that Management, the Board of Directors and the Board of Governors should adopt a conservative financial approach.

315. The Bank was presently encountering these financial problems because it had not ADF-only or ADB-only categories. Had it not lent to non-creditworthy countries, it would not now be faced with the problem of arrears. The aim of an ADF-only category was to avert the recurrence of such difficulties in future, and to inform the capital markets thereof.

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316. Referring to the comments of the Chairman of the Boards of Governors, he conceded that the proposed measures would result in a contraction of the Bank's operations, but only for 1994 and 1995. He hoped that the countries would gradually move from the ADF-only category to the ADB-only category. The aim was not to kill the Bank, but on the contrary, to structure it with a view to scaling down the number of borrowers. It would be possible to envisage the merging of the two Boards of Directors within the context of a review of the governance of the Bank Group. The issue could be considered jointly by the regional and non-regional members in the coming months.

317. The **REPRESENTATIVE of FRANCE** stated that his country had two objectives for the Bank Group at the moment, namely, a better contribution to the development of African countries and the financial soundness of the Bank. All actions and demands by his country should be understood in the light of that dual objective. Much remained to be done before the Nairobi meeting, setting as its goals the conclusion of the ADF-VII negotiations, the strengthening of the financial base of the Bank and the improvement of its effectiveness to enable the donors in return to raise the portion of their resources earmarked for the Bank Group. Some measures like those concerning the ADF-VII could be rapidly carried out, while others take more time. The framework should, therefore, be that of continual dialogue between the different shareholders of the Group on the one hand, and between them and Management on the other hand. It was worth recalling, in that respect, that the communication and information gap was considerable. Several issues raised in the Co-ordinator's letter deserved to be resolved.

318. In the first place, one should mention, in the dialogue and the necessary concerted action, the creation of an ADF-only category, and the quest for an improvement in the financial position. This creation, interesting for the beneficiary countries, was indispensable for the Bank, if a generalized accumulation of arrears were to be avoided. But this particular decision was bound to evolve in time. Actions suggestive of bullying should be avoided in favour of offering an opportunity for the recipients of concessional financing. Nevertheless, this measure should be complemented with a country risk policy based on clear and transparent criteria decided by, and applied in a transparent manner, by the Board.

319. In this connection, the discussion by the Board of a country risk policy document before the Nairobi meetings would be a clear and positive signal to the Governors because of the necessity to counter-balance decisions such as the one concerning the adoption of the 1994 Lending Programme, which was opposed by four Executive Directors, including the

one representing his country. In line with the resolution of the Board of Governors held in Dakar in 1992, this decision should be cited anew in Nairobi, this time on the consensual and concerted initiative of the Board and Management.

320. The negotiations on the adequacy of the capital and the possibilities of a capital increase would be launched also in Nairobi. These negotiations would provide the base for consultation between the regional and non-regional Governors. In that context, he commended the idea advocated by the Chairman of the Boards of Governors for continuing the deliberations of the Consultative Committee of the Governors, the lessons to be drawn from the last general capital increase, the strengthening of the financial base of the Bank, the restoration of equilibrium in the voting powers, the capital structure, and the other operational issues.

321. Nairobi should also make it possible to consider how to stabilize the situation in connection with the recent institutional tension through appropriate decisions on governance, with due regard for the respective powers of the President and the Board.

322. Some organizational reforms could be rapidly carried out, commencing their implementation before Nairobi would constitute an appreciable positive sign: decentralization of the power structure, staff redeployment, termination of contracts. The foregoing items were not new. With regard to the tension within the Bank, the nervous state of the financial markets, and the creation of an appropriate safety net for the Bank, one should be wary of misplaced catastrophism. The eventual call for callable shares which he had referred to would not be in function of the conduct of the bonds raised by the Bank on the capital markets, but of the non-respect by the Bank of the maturity date of a borrowing. But the Bank faced no immediate risks in that respect since its reserves corresponded to one and a half years' financial maturity date.

323. Moreover, the use of the ADF's resources to provide a safety net entailed problems including, among others, the questions of loan which were minor, and the other more serious ones. In connection with the latter, the Fund had never had too much resources to meet the needs of African countries. The path to follow was in the direction of the Bank, in the spirit of consultation between regionals and non-regionals, and through the establishment of a Trust Fund with semi-automatic contributions as needed. Instead of a rapid capital increase, he would recommend a rapid decision on an interim mechanism bridging the gap between today's capital and tomorrow's.

324. Finally, his country was obviously concerned by the liquidity problem of the Bank, particularly the use of derivative instruments (stop-loss, etc.) without the Board's instructions. Moreover, unlike in the past, the FTRY lacked managerial supervision.

325. The **REPRESENTATIVE of JAPAN** said that the message coming out of Bern should be expression of the desire to conclude the ADF-VII negotiations at the earliest possible time, and before the Annual Meetings. The Japanese financial markets were not as nervous as the American or Canadian markets about the Bank's financial position.

326. In short, the financial difficulties should be tackled with determination : an ADF-only category should be created, raising the interest rates would be a good thing; the sanctions policy had to be strengthened, and the process for the next general capital increase accelerated.

327. Japan was opposed to the employment of ADF's resources for the Special Fund. The issue should be handled within the context of the Bank. But, in that context, he appreciated the document prepared by his United States' colleague, although certain aspects required such substantial technical and legal clarifications that rendered the proposal premature. In contrast, as far as the Fifth Dimension was concerned as a compromise, Japan was prepared to accept the use of ADF loan repayments to subsidize interests. The sum of UA 135 million was quite substantial, and if these questions could be tackled during the Annual Meetings of the IMF and the World Bank, there were serious chances of launching a process.

328. The **REPRESENTATIVE of SWEDEN** realized that the present discussions were very constructive, that the situation was very serious, and that the Institution was passing through a difficult transitory period. He had listened attentively to the reassuring interventions of the Chairman of the Boards of Governors and the President of the Bank. Changes and reforms were necessary; he was seeking a global approach before the Annual Meetings in Nairobi, with elements like strengthening confidence between the regionals and the non-regionals, and taking measures necessary for the future of development. He supported the conclusion of negotiations either before or during the Nairobi Annual Meetings.

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329. His country also supported the creation of an ADF-only category, initiating the negotiations on the general capital increase during the Annual Meetings, or a short while thereafter, the creation of a working group of Governors with the aim of seeking greater understanding between the regionals and non-regionals.

330. His delegation looked forward with interest to the debt management mechanism, and hoped that a series of resolutions would come out of the Knox Report, which could be applied gradually, on the lines of the recommendations contained in the Co-ordinator's letter. From a procedural viewpoint, he encouraged the President to proceed in such a manner that the policy issues would be resolved within the framework of ADF-VII. Finally, he observed that it was very important that a positive signal come out of the present meeting.

331. The **REPRESENTATIVE of the UNITED KINGDOM** recalled the President's confirmation to the Chairman of the Boards of Governors that the OECD countries were unanimous in their desire to see the ADB Group strengthened. That was the starting point. But there was evidently a crisis of confidence on their part, principally a lack of confidence in the decision-making process within the Institution. For instance, the 1994 Lending Programme had not been adopted as a result of a consensual decision. Moreover, the high priority given, during the last Annual Meetings, to the liquidation of arrears had remained pious wishes, without being able to prevent them from rising. Besides, the decision taken in December 1993 by the Consultative Committee not to undertake any new action on the matter was a sign of another missed opportunity. One of the major priorities in Nairobi would be to deploy determined efforts to ensure a change in the attitude of the countries presently in arrears. The difference in the attitude of the regional member countries to their Bank and the World Bank was quite striking and raised doubts on the degree of their commitment to the Institution.

332. In his opinion, a decisive change was required in the Bank's lending policy because the United Kingdom did not think that it was appropriate to grant loans to low-income countries on ADB lending conditions. Hence the painful necessity to create an ADF-only category. In fact, the Deputies could not see why the African members accepted from the World Bank conditions and treatment that they wanted to refuse from the African Development Bank.

333. With respect to the conclusions of the ADF-VII negotiations, he had an open mind, but was sceptical about the rapid implementation of the measures imposed as prior conditions for the conclusion of the negotiations before or during the Annual Meetings. He endorsed the reservations on the establishment of a safety net due, among others, to the fact that the proposal was premature. Concerning the launching of negotiations on the adequacy of resources and the general capital increase, the process should take off in Nairobi, with the assistance of a Blue Riband panel proposed by the United States. In that connection, he doubted the utility of the work of the Committee of Ten, it might have even contributed to what the Knox Report called conflictual tensions between the shareholders on the precise role that the Bank should play. The GCI-V process might serve as a pretext to shelve otherwise urgent concerns.

334. The **REPRESENTATIVE of the NETHERLANDS** said that his country was determined to work constructively with all the parties concerned to conclude the ADF-VII negotiations in Nairobi. But the ADF-VII fell within a larger context. The Representative of the United States had outlined some elements of that global context, and his delegation approved them.

335. Commenting on those elements, he pointed out that the creation of an ADF-only category was in the interest of the Bank and the borrowing countries. He conceded that the issue of net negative transfers should be placed in a global context of donor activities. It was of crucial importance that a climate of confidence be created. That climate would make it possible to initiate rapidly the GCI-V negotiations. Finally, his country was prepared to consider favourably the establishment of a debt management mechanism. The non-regional countries were willing to make such a contribution, in a spirit of compromise, and in recognition of the fact that the present situation required an orthodox response from both the regional and the non-regional representatives who would have to put aside their traditional reflexes.

336. The **REPRESENTATIVE of FINLAND** stated that his country's position had not changed since the previous day. At the end of the Nairobi Annual Meetings, it would be crucial to affirm the consensus of all the 77 member countries. Issues relating to the ADF should be placed in a global context. The negotiations on the seventh replenishment could be concluded in Nairobi, in parallel with the Annual Meetings. His country supported the creation of an ADF-only category, subject to approval of a system of moving from one category to another. It also favoured the launching of the GCI process in Nairobi and the

establishment of a Blue Riband Group. Furthermore, it was convinced of the necessity for the implementation of the proposed measures to be monitored by the Governors, and not by the ADF donors.

337. The **REPRESENTATIVE of BELGIUM** said that it was desirable that the donors deploy all possible efforts to reassure the financial markets and save the Bank Group. A series of actions could only be undertaken if certain concrete measures were taken, even before the conclusion of the ADF-VII negotiations: creation of an ADF-only category, and other measures embodied in the Co-ordinator's letter.

338. He expressed doubts about getting satisfaction before or in Nairobi, and wondered if the decisions which Deputies might be prompted to take as a result of time constraints, would respond in the long-run to the set aspirations, or correspond to the wishes of the Bank Group, those of the donors, or the borrowers.

339. Referring to the mechanisms proposed for resolving the problem of debt and arrears, he recalled his opposition to the Special Fund. The Fifth Dimension would be unacceptable to his country unless it was financed by ADF loan repayments. In conclusion, he expressed the wish that deliberations on the general capital increase be accompanied by a review of the shareholding structure.

340. The **REPRESENTATIVE of GERMANY** feared that no clear message could emerge from the current meeting, although it had contributed to deepening the understanding of the situation and what was expected from all the parties. He hoped that a message could be sent to Nairobi: to the effect that the non-regionals would maintain their commitment to Africa through the ADB and the ADF. He stressed that the time for making promises had passed, that all the existing decisions should be implemented, and that no savings were too small in budgeting.

341. He added that the uneasiness of the financial markets and capitals were heightened by Mr. Bucknor's departure, and that a hasty conclusion of the negotiations before certain measures came into force would not be a positive element. With regard to the resolution concerning the lending programme, he understood the consensus differently: if a single opposition was expressed at the final stage, there was no consensus. In conclusion, he hoped that the restoration of confidence in the African partners to contribute to safeguarding this common Bank would lay the base for the support of all the OECD countries.

342. The **CHAIRMAN** expressed the view that the issues at stake were clear; the determination had been expressed to conclude the ADF-VII negotiations shortly, to initiate the GCI negotiations, to liquidate arrears, and to induce the Governors to assume their responsibilities. He was convinced that they would all make concerted efforts for the future of the African Development Bank Group.

343. The **REPRESENTATIVE of the UNITED STATES of AMERICA** suggested that the American media reports on the financial situation of the Bank be placed in their right perspective. The lead agencies and the guarantors of the Bank had the responsibility to sell the bonds on the market. The American Treasury organized sales auctions every Wednesday. There were times when the Treasury bonds were not sold. At present, the interest rates were not going up as easily as the lead agency for US\$ 500,000,000 had hoped. Its profits were thus not as substantial as it would have wished.

344. The **PRESIDENT of the BANK GROUP** added that the said information had originated from the Wall Street and that no other market had been disturbed by it. The guarantors had got in touch with the Bank Management to determine what was the right thing to do. There was an information mechanism on the American market which had to be apprised if the situation deteriorated. To that end, the guarantors and the lead agencies were ready to dispatch independent experts to Abidjan to verify the situation and report thereon to the markets. That would calm the situation in the United States.

The sitting was suspended at 2 p.m. and resumed at 3.30 p.m.

345. The **CHAIRMAN** observed that the discussions had been very useful and intense, even going beyond the strict context of the ADF-VII. He would have liked consideration of the report also to go as far as possible. Nevertheless, he requested Deputies who wished to do so to make their contributions to the morning's deliberations on strategic issues, and eventually Management and the President of the Bank to react. He proposed giving the floor to each delegation about the financial position of the ADF in order to have an updated table of subscription possibilities before the Nairobi meetings.

346. The Drafting Committee had produced a document which would be distributed in the two languages. He suggested that Deputies should study the document between the present time and the Annual Meetings in Nairobi, because he did not expect paragraph 19

and the following paragraphs to be discussed during the present meeting. He recognized the fact that certain aspects of the draft resolution could be improved upon.

347. He announced that the next consultative meeting on the replenishment of the ADF resources would take place on the afternoon of 7 May and on 8 May 1994, before the Annual Meetings. He realized though that the dates were too close to the Annual Meeting of the Asian Development Bank.

348. The **REPRESENTATIVE of SWEDEN**, concerned with giving a concrete content to the common desire to see a positive signal from the meeting, suggested that the present consultative meeting be rounded up with the publication of a press release for appropriate dissemination.

349. The **REPRESENTATIVE of SPAIN** suggested, with a view to stepping up the consultative process of the ADF replenishment, consideration of the possibility of subjecting the entry into force of ADF-VII to the implementation of general actions, as set out in the Co-ordinator's letter.

350. The **REPRESENTATIVE of the UNITED KINGDOM** wondered to whom the press release would be addressed, what impact it would exert, and about the time constraint.

351. The **CHAIRMAN** shared the opinion of the United Kingdom representative, especially if the press release was expected to reconcile divergent views but Management could issue the release, with the assistance of Deputies, by stressing the determination of the different partners for a solid Bank to be present side by side in Nairobi.

353. The **REPRESENTATIVE of the UNITED STATES of AMERICA** thought that issuing a press release was not the right course. He would rather prefer a statement by the Bank President underlining the areas of consensus and convergence, and summarizing the deliberations.

353. The **REPRESENTATIVE of the UNITED KINGDOM** subscribed to the previous speaker's statement and opted for a less formal message. It was Management's right to reassure the markets that the donors were collaborating constructively.

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354. The **REPRESENTATIVE of SWITZERLAND** supported a short statement.

355. The **REPRESENTATIVE of FRANCE** scarcely saw any benefit from negotiating a press release whereas Management could prepare a statement on the aspects concerning the Bank. For the ADF, things were not sufficiently advanced. A reassuring statement which expressed the commitment of the non-regional countries would be more profitable. Management did not require any encouragement from the Deputies.

356. The **PRESIDENT of the BANK GROUP** expressed his gratitude to all the speakers for their suggestions. His reaction was similar to that of the Swiss representative. He could arrange for his staff to prepare the required statement. But, inasmuch as the capital markets were not located in Africa, and the callable capital supporting the operations on the capital markets were not those of the African countries, such a communication would not have the desired impact if it was signed by Management only. Therefore, he suggested that the communication be issued by the Co-ordinator, since he was the author of the first letter.

357. He conceded that those who thought that it was difficult to negotiate a press release were quite right, because it was a time-consuming task.

358. The **CHAIRMAN** requested Deputies to authorize him to prepare a press release in conjunction with the President.

It was so agreed.

359. The **PRESIDENT of the BANK** said that if he had to draw any lessons from the meeting, he would point out that the different statements had clearly shown that the problems of the Bank Group had been addressed in a very positive spirit. One stumbling-block to the ADF negotiations was the creation of an ADF-only category. He gave the assurance that Management could not be fundamentally opposed to the idea, because it would be dangerous to continue to lend money to countries without the repayment capacity, or whose defaults could endanger the Bank's position. Hence, the proposal should be refined. If the criterion of creditworthiness had to be developed as it should, Management would do it before the Nairobi Annual Meetings. Denial of access to the defaulting countries for the balance of the fourth replenishment resources might be envisaged.

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360. He made it clear again that classification of a country in a given category was not definitive. Management would make a point of explaining why it was necessary to limit Bank loans to a certain category of countries, and seeing if compensation mechanisms could alleviate the effects of the application of such a proposal.

361. He agreed with the Norwegian representative that net transfers might sometimes be negative. Management was anxious to get the underlying problems of this proposal understood by the Deputies, and the Deputies' concerns understood by the affected regional countries.

362. It was astonishing to hear, in connection with the issue of arrears, that Management had neither made any efforts, nor kept its promises to control arrears. Since the last Annual Meetings, financial measures had been taken, as a result of which the Bank's representations, staff missions, and the President's travels, had made it possible to resolve part of the problems. He suggested joining down the affirmation that Management had not kept its promises. He was ready to announce what would be done on the Knox Report which had claimed considerable attention among Deputies.

363. The programme proposed by the Co-ordinator did not entail any fundamental problem. But Management could not make any promise on the implementation time-table demanded by some delegates, i.e. implementation of some measures before Nairobi. Moreover, it was worth noting that there would be only one meeting of the Boards before the Annual Meetings and that there were rules for the submission of items. Concentration had centred around the Knox Report.

364. The data requested were available and could be circulated in the following week, but that would not be sufficient.

365. He commended the spirit behind the drafting of the Co-ordinator's letter, as well as the commitment made by the ADF State Participants, shareholders of the ADB, for their support of the Group.

366. The **CHAIRMAN** stated that the Nairobi meeting would offer Deputies an opportunity to devise an appropriate diplomatic wording to get approval for the creation of the ADF-only category.

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367. With regard to arrears, the Bank President's previous statement illustrated the communication gap previously mentioned. He recommended, between now and the Nairobi meeting, that stock be taken of the measures carried out in this respect.

368. As for the funding of the ADF, he observed that the situation was disturbing, the commitment capacity having been exhausted. The shortfall presently facing the ADF-VI could probably be treated under various headings. Different scenarios had already been discussed, on the basis of the resource needs of African countries and constraints on the donors. Before calling on Deputies to present their respective positions on the matter, he apologized for having omitted to formally announce the presence of Argentina's delegation. He welcomed that country's return after passing through some difficult moments.

369. The **REPRESENTATIVE of FRANCE** thought that it would be useful if Deputies could complete their interventions during the on-going consultation by specifying when their respective countries could deposit their instruments of subscription, in order to envisage the date that the ADF-VII would come into force.

370. The **REPRESENTATIVE of GERMANY** said that he had previously mentioned the situation prevailing in his country since last autumn. His delegation could no longer negotiate subject to parliamentary approval. Parliament had to be notified beforehand. Since its bilateral aid had been increased substantially, Germany could not go beyond 9% of the replenishment, i.e. the previous level. Nor could he announce an amount in absolute figures. If the Budget Commission's approval was obtained, the amount of the contribution could be inserted in the 1995 budget.

371. The **REPRESENTATIVE of SAUDI ARABIA** expressed his delegation's appreciation to the Swiss authorities. His country was conscious of the role which the Bank Group was playing in the economic and social development of the continent as well as the resources required for the replenishment of the ADF's resources. The competent authorities were studying the situation, and their decision would be communicated in due course.

372. The **CHAIRMAN** hoped that that decision could be communicated before the Nairobi meeting.

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373. The **REPRESENTATIVE of ARGENTINA** thanked the Swiss authorities for their hospitality. Argentina's presence at the consultative meeting should be seen as a symbol. Since 1979, his country had had to contend with very severe inflation, due largely to an unsuitable fiscal regime. But structural adjustment measures had been taken to redress the situation, including a privatization programme of the economy and the reform of the State. Improvements were being made to the fiscal accounts.

374. He announced that his country intended to take part in the next replenishment by maintaining the same share of previous replenishments.

375. The **REPRESENTATIVE of AUSTRIA** said that he had supported the creation of an ADF-only category in the hope that the replenishment level would be increased. His authorities urged African countries to accept that initiative, which would enable Austria to increase its participation. He felt that there were no resources to establish a safety net, he maintained his support for increasing the total volume of replenishment. The electoral timetables of his country prohibited indicating a date for the deposit of instruments before the end of the year.

376. The **REPRESENTATIVE of BELGIUM** recalled his previous statement on the budgetary difficulties facing his country, compounded by the depreciation of the Belgian Franc parity to the Unit of Account. Consequently, its contribution could certainly not exceed the nominal amount subscribed to the ADF-VI, which meant a decrease in the relative value. The deposit of instrument could only be effected at the beginning of 1995.

377. The **REPRESENTATIVE of BRAZIL** started by expressing his delegation's gratitude to the Swiss Government for its warm hospitality. The draft resolution having introduced restrictions on contributions in national currencies, it would be difficult for his country to maintain the level of its previous contribution. The situation had already been presented in the context of IDA. Brazil's contribution would, therefore, have a symbolic value.

378. The **REPRESENTATIVE of CANADA** observed that equitable allotment of shares was important for his country. Canada had borne too large a proportion of the previous replenishments, occupying the fourth position of the total replenishment of resources since the establishment of the ADF, and the fifth place for the paid-up resources. Considering that Canada held only the seventh rank in the G-7 countries, it had thus been playing a role out

of proportion to its size. During the recent meeting of the Global Environment Fund, the international community had agreed that an IDA-adjusted formula was the most appropriate way to determine a balanced burden-sharing. Canada was thinking of reducing its share and nominal contribution. But the actual level would be in function of Canada's satisfaction on the financial reforms demanded.

379. The **REPRESENTATIVE of SWEDEN** had not yet obtained instructions from Stockholm. Strong pressures would be exerted on his country's budget and he could not guarantee being able to maintain its level of participation in the ADF-VI.

380. The **REPRESENTATIVE of CHINA** thanked the Swiss authorities for their hospitality. His country would continue to make efforts by maintaining a contribution of 1.642% of the replenishment payable in three equal tranches denominated in the United States dollar.

381. The **REPRESENTATIVE of KOREA** announced that his country's subscription would be 0.696% of the total replenishment. It was its highest level of subscription to any development bank because the new Korean Government had adopted a budget restriction programme in the previous year.

382. The **REPRESENTATIVE of SPAIN** said that the parliamentary process in his country would take a year once the resolution was approved.

383. The **REPRESENTATIVE of the UNITED STATES of AMERICA** announced that his country intended to contribute US\$ 500 million per year over the three-year replenishment period, which represented a decrease in nominal value of previous replenishments. An amount of 800 million dollars in arrears was outstanding as a result of an increase of 25% to IDA, 29% to the ADF-VI, and 15% to the AsDB. Unfortunately, his country had not been able to adhere to the schedule of payments. The Secretary of State had recently announced a reduction of arrears. It was worth recalling that the United States made an annual contribution of US\$ 100 million for four years to the World Environment Fund, which was a substantial amount. The first tranche of the subscription to the ADF-VII might be paid around 1st October or 1st November.

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384. The **REPRESENTATIVE of FINLAND** recalled having already explained, in Copenhagen, his country's position on the financing of ADF-VII. He announced a nominal increase of its subscription to be translated by a contribution of 200 million Finnish marks, the first tranche of which might be paid even in the present year.

385. He added that for his country's authorities, the schedule of annual encashments was very important. He, therefore, requested the Finance Department to provide explanations on cash-flow estimates.

386. The **REPRESENTATIVE of DENMARK** stated that subject to carrying out substantial financial and operational improvements as outlined in the Co-ordinator's letter, and obtaining an equitable burden-sharing, his country could support a replenishment of UA 2.6 million by maintaining the real value of its contribution.

387. The **REPRESENTATIVE of FRANCE** announced that his country's contribution would depend on the extent of response to its requests on the lines of the Co-ordinator's letter. France had contributed 7.02% to IDA; it had also contributed substantially towards the fourth, the fifth and six replenishments of the ADF, thereby occupying the third position among the Fund's donors. The ADF should now prove that it had a significant advantage over IDA, inasmuch as the requests by African countries to bilateral donors were considerable. France's contribution represented 10.7% of the combined contributions of all the other countries. That level would probably be a ceiling for the next replenishment of resources.

388. The total amount of the replenishment to the ADF should be recapitulated in the light of the announced reduced contributions, so as to avoid encouraging expectations which, from all indications, appeared unlikely to be met.

389. The **REPRESENTATIVE of INDIA** thanked the Swiss Government for its hospitality and the facilities placed at the disposal of the meeting, as well as the Co-ordinator for his effectiveness. India had already announced its position at the fourth consultative meeting. Despite its desire to strengthen the resource base of the ADF, budgetary constraints had compelled India to limit its contribution to UA 8,450,000 in real value. He could not at the present time announce the time-frame for payment of the amount.

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390. The **REPRESENTATIVE of ITALY** could not make any formal commitment at the present stage, but hoped that there would be developments by the time of the Nairobi meeting.

391. The **REPRESENTATIVE of JAPAN** stated that his country was faced with a budget deficit of 19%, payment of interests amounting to 16% of the budget, and current debt going up to 53% of the GNP. The authorities had to stimulate the local market and effect substantial fiscal reductions within the framework of negotiations with the United States. The budget constraints were, therefore, very severe. On the other hand, the ADF no longer had commitment capacity, yet it had to provide resources to the poor countries as early as possible.

392. His country was ready to conclude the negotiations on the basis of an equitable burden-sharing. Japan would contribute 13.60%, but if the major donors reduced their respective contributions, it would have to do the same. The overall level should, therefore, be realistic and feasible. It should be fixed once and for all without leaving any amounts in doubt.

393. He reiterated his concerns on the problem of arrears involving Japan's contribution. Since the proposed contribution to the ADF had not been taken into consideration in his country's 1994 budget, the matter would feature on the agenda after April 1995, unless a special session of Parliament was convened.

394. The **REPRESENTATIVE of KUWAIT** said that as an oil-dependent economy, his country was faced with several difficulties, and could not maintain the level of its contribution to the ADF-VI. It would contribute US\$ 25 million which would be paid during the present year.

395. The **REPRESENTATIVE of NORWAY** had no instruction up to the present time, due to various reasons, including the delay in negotiations, all the different issues raised, and the problem of cost-sharing. He noted that the issue of cost-sharing was getting considerable importance, and had been disheartened by his Canadian colleague's proposal to transfer the experiences of one institution to another, which would be damaging for the bilateral mechanism. His country hoped to be able maintain the level of its previous contribution. If there was any possibility of making the subscription in 1994, it would be announced in Nairobi, otherwise it would have to be in 1995.

396. The **CHAIRMAN** noted that the manner in which the issue of cos-sharing was being approached was inclined to generate negative feelings, which might completely deny the ADF of resources. That warranted reflection, if an impasse were to be averted.

397. The Netherlands had engaged in the resource replenishment process with the hope of raising the volume of resources from the previous replenishment level on account of the exclusion of category A countries to ADB resources, the necessity to provide compensation through increased concessional funds, and to assist categories A and B countries combat poverty, without compromising their growth prospects. Yet, there had been reference that morning to the adoption of a global strategy which would enable the ADF negotiations to be concluded. An appreciable level of replenishment would be a good signal to the financial markets.

398. He drew the attention of his colleagues to the importance of the Nairobi meetings which was likely to be a decisive turning-point for the entire Bank Group. In that context, it was imperative that the State Participants make a special contribution to the Fund in order to mark the event. If the negotiations were concluded in Nairobi, his country, which would be holding general elections in two weeks' time, could submit its instrument of subscription before the end of 1994. In any case, any delay in the conclusion of the negotiations would introduce an element of uncertainty to the country's contribution to the ADF-VII.

399. The **REPRESENTATIVE of PORTUGAL** expressed his country's continued support of the zero growth scenario, and maintenance of its share of the ADF-VI, on the basis of a replenishment level of UA 2.4 billion, possibly going up to UA 2.6 billion.

400. The **REPRESENTATIVE of the UNITED KINGDOM** recalled having confirmed in Copenhagen the high priority which Africa occupied in his country's overseas assistance programme. That priority had just been expressed in its contribution to SPA III. But he had serious concerns regarding the developmental effectiveness of the Bank Group operations. The United Kingdom's participation in the replenishment of the ADF would hinge on the measures to redress the present state of affairs. The adoption of a clear and unambiguous lending policy was an essential condition, as was the circulation of a plan of action for tackling the problems of project quality identified in the Knox Report. The United Kingdom would welcome a firm commitment on the other issues raised in the Co-ordinator's letter.

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401. The **REPRESENTATIVE of SWITZERLAND** thought that his country might increase its contribution slightly in Swiss Francs over its share of the ADF-VI. Based on a replenishment level of UA 2.6 billion, that would mean a minor reduction of Switzerland's share. The instrument of subscription might be deposited in a few months' time.

402. The **REPRESENTATIVE of GERMANY** stated that considerable progress on his delegation's demands was a pre-requisite for any action before Parliament.

403. The **CHAIRMAN** observed that the picture emerging from the deliberations was rather gloomy, characterized by uncertainties about the nominal value of the ADF-VII and the long periods of negotiations. In fact, the next replenishment would not enter into force before the end of 1994. The ADF was, therefore, placed in a prolonged period of lack of commitment capacity. In the circumstances, he urged Deputies to adopt a creative approach to the reconciliation of the duration of the time-frame which they needed with the necessity to put in place the commitment capacity of the Fund at the earliest possible time.

404. He had already said that the problem of cost-sharing should not offset the mobilization of resources for the African Development Fund. He then requested Management to prepare for the Nairobi meetings, tables on the cost-sharing formula that were applied to the ADF-VI. Any changes based on the announcements of contributions would serve as a useful reference.

405. Deputies had received two documents, one on the Drafting Committee's work concerning paragraphs 4 to 18 for consideration, and the other on calculation of allocations based on the Dutch proposal.

406. The **REPRESENTATIVE of FRANCE** noted a point of detail: the last column of the simulation table of allocations was misleading, because it was a mathematical method of increase for each country, which was not so significant. The corresponding figures for all the countries were slightly different, because all category A countries changed from a little over 1.4 billion to nearly 1.6 billion, representing a total increase of 10.5%; by contrast, category B did not register an increase of 5%, but a fall of 20%.

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407. The **CHAIRMAN** observed that the Deputies had concluded their deliberations at least for the present time; but the outstanding agenda items remained ambitious. He reminded them that the next meeting would be held on 7 and 8 May in Nairobi, and that Management would forward the necessary documents as usual. He implored Deputies to study the documents despite the limited time available.

408. In conclusion, he thought that despite everything, the meeting had been quite exhaustive, devoted as it was to an institution which was of cardinal importance for the development of Africa. Assurances had been given by all the parties concerned that they would do their utmost in Nairobi to continue their solid relations with the Bank Group. He thanked Deputies for their interventions and the Swiss authorities for their hospitality, wished those travelling safe return journey, and a pleasant time for those extending their stay in Bern.

The meeting rose at 7.05 p.m.

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