

AFRICAN DEVELOPMENT FUND

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

**OUAGADOUGOU, BURKINA FASO
8 - 10 NOVEMBER 1993**

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PROVISIONAL SUMMARY RECORDS OF THE FIRST SITTING
held at the Conference Hall of Hotel Pullman Silmande in Ouagadougou,
Burkina Faso on Tuesday, 9 November 1993 at 9.10 a.m.

- CHAIRMAN** : **Mr. Ruud Y 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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Minister of State for Finance and Planning, Burkina Faso
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President of the ADB Group
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OPENING THE MEETING

1. The **SECRETARY-GENERAL** read the programme for the opening ceremony and introduced the Burkinabé Minister of State for Finance and Planning.
2. The **MINISTER of STATE**, on behalf of the President, the Prime Minister, Government and People of Burkina Faso, welcomed and wished delegates a pleasant stay in Ouagadougou.
3. He stressed that the Third Consultative Meeting on the Seventh Replenishment of the Fund was of utmost historical importance. Firstly, because it marked a decisive turning point in the ADF negotiations, considering the important decisions which would be taken in response to the expectations of the African continent and, furthermore, it was the first time that the Deputies were meeting in an African country in the context of ADF replenishment.
4. Since the severe economic crisis of the 1980s, African countries had unceasingly been making sacrifices to reverse the declining economic trend on the continent. But the economic recovery observed in some countries was still precarious and uncertain. Coupled with the serious poverty problems, Africa had to manage several devastating civil wars which constituted serious handicaps to its development. Notwithstanding all these constraints, there was the need to seize with determination and optimism the opportunities offered by this meeting in order to portray a positive image of Africa, doing its utmost to meet the challenges of development through such privileged instruments like the ADF.
5. To rise up to those challenges, Burkina Faso, like other African countries, had chosen to undertake bold economic reforms and political adjustment. It had launched a democratic process aimed at human resource development and good governance. Since its success was linked to substantial financial resource mobilization, he hoped that the Ouagadougou meeting would provide the necessary support to enable the new Africa to take shape.
6. The **PRESIDENT of ADB**, in response to the Burkinabé Minister of State for Finance and Planning, expressed the Deputies' sincere appreciation to the Government and People of Burkina Faso for their warm welcome and the excellent arrangements made for the Third Consultative Meeting on ADF-VII in Ouagadougou.

7. He also thanked the Minister of State for presiding over the opening ceremony and for the important message that he delivered to the delegates.

8. Emphasizing the broad outlines of the role of the African Development Fund, he recalled that, since its establishment in 1972, the Fund had devoted itself to the financing of projects and programmes in the low-income African countries. Since then, the resources of the Fund had been enhanced by regular three-year replenishments. The Seventh Replenishment, which would cover the period 1994-1996 and whose negotiations were in an advanced stage, would, undoubtedly, meet the expectations of beneficiary countries.

9. It is undeniable that, over the years, the Fund had grown to become one of the major sources of concessional financing in the continent. The Fund's cumulative loan and grant commitments by the end of 1993 would amount to US\$10.4 billion. These commitments had been translated into the betterment of the livelihood of millions of Africans. To date, Burkina Faso had benefitted from 22 operations for a total commitment of 75 billion CFA, including the Bagré project which the Deputies had the opportunity to visit.

10. As the first Africa-based source of concessional financing, the Fund occupied a special place in meeting the development resource requirements of the continent. In view of the magnitude of the challenges to be addressed and without, however, underestimating the budgetary constraints facing donors, a substantial replenishment of the ADF resources would be greatly appreciated.

The Meeting was suspended at 9.20 a.m. to enable the Burkinabé Minister of State for Finance and Planning to leave and it was resumed at 9.30 a.m.

11. The CHAIRMAN welcomed all the delegates to the Third Meeting on the Seventh Replenishment of the Fund. He was grateful to the Minister of State for honouring them by being in their midst and for his inspiring speech which should edify the Deputies in their discussions. He was convinced that after the previous day's field visit to the Bagré project, delegates were ready to work for the development of Africa, a continent which was in dire need of a durable solution to its problems. If it is true that the task of looking for this solution depended first and foremost on Africans themselves, its leaders and institutions, donor countries should, on their part, support the efforts made for a satisfactory change.

ADOPTION OF THE AGENDA (ADF-VII/CM.3/93/12) (Agenda item 1)

12. The **CHAIRMAN** submitted a modification in the order of considering the items listed. He proposed that the document on the ADF Eligibility Criteria be considered first (item 3.1), to be followed with that on the Review of Criteria for the Allocation of ADF Resources (item 3.2), then the revised proposal on ADF Debt Alleviation Mechanisms (item 3.3), Considerations on Support for Micro-Enterprises (item 3.4) and, finally, the Review of Technical Assistance Fund Operations (TAF) (item 3.5). The other items remained unchanged.

It was so decided.

The Deputies adopted the Agenda for the Third Consultative Meeting on the Seventh General Replenishment of ADF Resources, reproduced as an annex.

ADOPTION OF THE SUMMARY RECORDS OF THE SECOND CONSULTATIVE MEETING HELD IN THE HAGUE, 29-30 JULY 1993 (ADF/ZG/ADF-VII/CM.2/93/SR) (Agenda item 2)

13. The **CHAIRMAN** commended the Bank staff for producing Summary Records which faithfully reflected the discussions of the last meeting and submitted them for adoption by the Deputies.

The Deputies adopted the Summary Records of the Second Consultative Meeting held in the Hague on 29 and 30 July 1993, subject to amendments that would be communicated to the Office of the Secretary-General.

CONSIDERATION OF SUBSTANTIVE PAPERS (Agenda item 3)

ADF ELIGIBILITY CRITERIA (ADF-VII/CM.3/93/17) (Agenda item 3.1)

14. Mr. **KARIISA** (ADB) recalled that at the Second Consultative Meeting held in the Hague, the establishment of an intermediate facility was proposed to specifically address the problem of blending which had not been solved in the context of the eligibility criteria and the allocation of resources. Some delegates had proposed the adoption of IDA-10 eligibility criteria to resolve the problem. The document submitted attempted to present the IDA-10

approach based on 1989 and 1991 data. The conclusions of this exercise were presented in the Annexes. They indicated that the number of Category A countries would increase substantially but the available resources would be reduced to such an extent that they would not have any significant impact on the countries.

15. Management then explored an alternative based on the SPA categorization. This approach would help reorganize, raise the level of performance and limit the number of countries in Category A, which should enable them to have additional resources which would have a real impact on their development. The application of this criterion would leave Category B countries with adequate resources for blending.

16. In conclusion, Management proposed a categorization which would take into account that of ADF-VI as adjusted by the inflation index and including all SPA countries. In this context, only Senegal would be outside in per capita income terms. SPA countries with per capita GNP exceeding US\$543 would be considered, for purposes of allocation and eligibility, as if they were in Category A.

17. The **REPRESENTATIVE of the UNITED STATES of AMERICA** thanked the host country for its hospitality and facilities provided for the visit to the Bagré project outside Ouagadougou. She appreciated that visit which enabled her, to some extent, to assess the situation in the country.

18. As regards the eligibility criteria, it would be advisable to find a balance between available resources and needs. To do that, it would be most appropriate to adopt the criteria used in the World Bank. She, therefore, proposed the adoption of the classification system applicable to IDA-only borrowing countries. According to this system, some countries would borrow from the Fund and others from the Bank. Several arguments were in favour of these criteria because the current ones impaired the Bank's financial health.

19. It was worth noting that concessional resources were becoming scarce not only for the ADF but also for all financial institutions, and therefore should be channelled towards countries that had the greatest need for them. The IDA-only categorization system had broad international acceptance; it was adopted by the Paris Club, the SPA and elsewhere. It was sufficiently flexible and could accommodate changes in the economic conditions of countries. There could be changes in the categories, if that was necessary and it would be easier for the

donor community to support the Bank's programme if it applied the criteria similar to those adopted by the other institutions.

20. The **REPRESENTATIVE of ITALY** also thanked the Burkinabé authorities for organizing the meeting and making it possible to visit the Bagré project. He supported the American delegate's viewpoint to adopt the World Bank's categorization system for the eligibility criteria but pointed out that the review last September of IDA and SPA criteria led to a new categorization cut-off point based on GNP per capita less than US\$765. He believed that before deciding on the issue, Management should prepare a new document based on the World Bank's categorization.

21. The **REPRESENTATIVE of CANADA** joined his colleagues in thanking the host government for organizing this meeting and for the field visit to one of the ADF projects.

22. His country considered the eligibility issue as one of the most important in the replenishment exercise. For two reasons, beneficiary countries should borrow on terms that they could afford. Firstly, in order not to compound their debt situation and secondly in order not to jeopardize the Bank's financial situation. Consequently, the eligibility criteria for ADF resources should take into account the fact that only Category A countries should be eligible for Fund resources. Eligibility of Categories B and C countries should be conditioned by their creditworthiness. Furthermore, countries receiving concessional treatment from the Paris Club should not be eligible for Bank lending.

23. In order to implement the country creditworthiness policy, Management should strengthen its country risk exposure guidelines by including a risk analysis.

24. He pointed out that his country supported the IDA-10 approach contained in the document. He suggested that the allocation levels of 90% and 10% be explored to assess its appropriateness given the suggestion that only Category A countries should have access to ADF resources.

25. The **REPRESENTATIVE of NORWAY** welcomed the President of the Bank's excellent proposition of Burkina Faso as the venue for the Third Consultative Meeting and of organizing a field visit to the impressive Bagré dam project.

26. As regards the issue of eligibility, he supported the previous speaker's viewpoint. He felt that it was appropriate to establish a category of ADF-only recipients. Category B countries could have access to blending and the others would be eligible for ADB resources.
27. He specified that his authorities were supportive of the SPA categorization such as proposed in the document, because such an approach provided adequate resources for countries most in need. He also supported the proposal by the Canadian delegate that countries receiving Paris Club treatment should not be eligible for Bank funding.
28. The **REPRESENTATIVE of the NETHERLANDS** pointed out that, from the theoretical viewpoint, the IDA methodology seemed the most appropriate, based on the reasons put forward by the delegates of America, Canada and Norway, but in the present context, a study of Annex II cast some doubts on the efficacy of this proposal, because the assumptions showed that the traditional Category A countries would loose substantially whereas those less deprived would gain from that. He believed that the scarce concessional resources should be targeted to the very poor countries.
29. He opted for Management's proposal. In his view, the difference between the current categorization and the new one would be reduced if inflation was taken into account. It should be noted that the situation would have been quite different if the volume of the replenishment was known. The IDA categorization would have been preferred if the volume of the replenishment should be in the range of between UA 3 and 4 billion.
30. As regards the classification of SPA countries as notional Category A countries, there were doubts as to its efficiency because, in his view, the SPA was basically centred on macro-economic support and structural reform. Category A countries could benefit from reform support loans under ADF. Only one country would move to Category A in the present context, but others might probably join it in future.
31. The **REPRESENTATIVE of the UNITED KINGDOM**, like the Dutch delegate, was concerned about the transfer of concessional resources to the poorest countries. He was satisfied with the existing classification of countries into three categories; A, B and C starting with a cut-off point of GNP US\$510 for Category A countries. He also approved the approach of having ADF-only and Bank-only recipients. He would like to know whether a modification of the IDA-10 approach would not attain the same objectives because the cut-off

point of GNP US\$1235 was purely theoretical in so far as resources from IDA-10 were currently granted to countries below the operational cut-off point.

32. He shared the viewpoint of the Italian delegate to find out the current cut-off point of IDA. He had learnt last September that it was raised to US\$805. This cut-off point could be maintained for Category B countries and a lower one for Category A countries which should receive a bulk of the resources. About 10% or 15% of the resources would be available for Category B countries including Nigeria to which blend resources could be granted. He would welcome from Management a scenario based on this approach. The 1992 updated GNP data as well as the 1991 population figures were available and he would urge Management to use them for any future simulations.

33. The **REPRESENTATIVE of FRANCE** joined his colleagues who thanked the Burkinabé authorities for the reception accorded them as well as the visit to the Bagré project.

34. As regards the eligibility criteria, he recalled the theme developed by the Canadian delegate to know the absolute need for adapting financing to the repayment capacity of countries and to reserve a major portion of the concessional resources to Category A countries. The choice of the SPA approach would lead to the exclusion of some countries such as Cape Verde and Lesotho which surely needed ADF resources. Such a choice was not compatible with the set objective, hence it would be advisable to opt for an IDA-10 approach which was simpler and consistent with the practices adopted in all development institutions.

35. As pointed out by the delegate from the Netherlands, it would have been easier to choose the approaches if the volume of the replenishment was known. Nevertheless, irrespective of the amount of the replenishment, there was room for manoeuvre for the Technical Assistance Fund and Adjustment Loans whose proposals were not limited. Notwithstanding the reticence of some delegates, he felt that the readjusted IDA approach would provide adequate resources for the poorest countries.

36. The **REPRESENTATIVE of AUSTRIA** joined the previous speakers in thanking the authorities of the host country.

37. As regards the issue of eligibility, she shared the viewpoint of his Dutch colleague. In her view, the IDA-10 cut-off point was too high for the categorization of African countries. Since ADF resources were limited, the bulk should go to the poorest countries only. It would be difficult to justify the increase in the per capita income limits since the GNP of several countries was low. The SPA eligibility criteria did not also seem to be acceptable. The case of countries like Senegal required attention but the difference in income levels would create an imbalance with respect to the low-income countries. Her country would rather go for the maintenance of ADF-VI criteria adjusted for inflation.

38. The **REPRESENTATIVE of NORWAY** would like to rectify an impression that his Dutch colleague had had that Norway supported the IDA-10 approach. Norway did not support the IDA-10 approach but was rather in favour of the SPA approach and the establishment of a group of ADF-only Category A countries. As regards the blending category of countries, his country strongly urged Management to prepare a policy paper on blending.

39. The **REPRESENTATIVE of GERMANY**, in turn, thanked the Burkinabé authorities for hosting the meeting and for the opportunity given to the delegates to visit one of the ADF projects.

40. As regards the item under consideration, he felt that it would be useful to make a distinction between the eligibility criteria and the allocation of resources available within the different categories. He had difficulty in understanding how different criteria could be applied in institutions having more or less the same objectives and donors. He therefore had some sympathy for the IDA-10 approach bearing in mind that its cut-off points were not theoretical but operational. Such an opportunity could be seized to harmonize ADF criteria with internationally-accepted ones.

41. He felt that the discussions which would follow the fixing of the replenishment volume would be based on the allocation of resources to countries within one category.

42. The **REPRESENTATIVE of the UNITED STATES of AMERICA** wanted to add that one of the reasons why her country found the World Bank categorization attractive was that it did not just take into account the GNP per capita but also the creditworthiness of borrowing countries. It was, therefore, a dynamic and not a static system.

43. She indicated that her delegation attempted to determine, through tables that she could make available to Deputies, the content of the different proposals. For example, Management's proposal for Category A had 40 countries eligible for Fund resources whereas the World Bank categorization had only 37 countries for this category and 3 countries for Category B. The rest of the countries would be "Bank-only" borrowers.

44. The **REPRESENTATIVE of SAUDI ARABIA**, after expressing his thanks to the Burkinabé authorities, believed that the objective of the ADF, which was to help the poorest African countries would not be achieved if the IDA-10 categorization was adopted because it granted very little resources to Category A countries. In his view, the SPA approach would be the most appropriate because it was obvious that most of the countries might not be able to have access to concessional resources. As some delegates had indicated, such an approach was not entirely satisfactory. Nevertheless, some measures could be taken to give a special treatment to disadvantaged countries, like what was done for Nigeria and Namibia under ADF-VI.

45. As stated by Management in paragraph 3.1 of its document, some countries might join the SPA in the course of the replenishment, therefore, proof of flexibility was necessary.

46. The **REPRESENTATIVE of SWITZERLAND** welcomed the visit which enabled delegates to see the infrastructure of the Bagré project. He wanted also to know Management's view on the future of the project, particularly the agricultural component. He felt that their discussions should take into account the field realities in order to reduce the gap between the official resources allocated and those for the field activities.

47. As regards the issue of eligibility, he had difficulty in taking a final position on it without having more details on the volume and modalities for the replenishment. It would not be appropriate at this stage to talk about specific country groups in the sense that there might be some currency realignments in future which could change the composition of the groups and the outlook on the different categories. Consequently, it would be worth knowing to what extent changes could be possible under ADF-VII and how there could be flexibility in the categorization.

48. The **REPRESENTATIVE of SWEDEN** felt that there were strong arguments for adopting the World Bank approach excluding the poorest and non-creditworthy countries

from Bank lending. It was obvious that any addition to the debt burden in those countries would complicate further their situation because of their export earning capacity. His country did not believe that the notion of pockets of productivity was an appropriate one because it was not convinced that possible export earnings should be earmarked to repay Bank loans.

49. He shared the viewpoint of delegations which expressed the need to concentrate concessional resources on the poorest countries and he believed that that would be one of the issues for the discussions because it was clear from negotiations with other institutions that ODA resources would be very scarce in the coming years. He concluded in favour of the SPA approach.

50. The **REPRESENTATIVE of BELGIUM** added his voice to those of Canada and France on the need to adapt eligibility criteria to the real capacities of each borrowing country. He also shared the idea that countries benefitting from the Paris Club treatment should not have access to Bank resources.

51. As regards the selection of eligibility criteria, he indicated that his country was not ready to take a final position on an approach but would opt for a solution which would provide greater possibilities to the poorest countries and the SPA approach seemed to better respond to such a criterion. Nevertheless, it would be advisable to bear in mind that any major changes in the eligibility criteria could change the present allocations among Categories A, B and C.

52. The **REPRESENTATIVE of JAPAN** felt that the most important point was that the Fund be substantially replenished for the poorest countries. He would like the categorization to be as transparent as possible in order to avoid drastic changes in the system. He, however, supported the SPA approach, at this stage of the discussions.

53. The **REPRESENTATIVE of FINLAND** had the feeling that the discussions were not making a headway because the Bank did not have a clear blending policy which would identify "Bank-only" and "Fund-only" countries. The establishment of international standards for allocating concessional resources was necessary. Nevertheless, he was not sure whether IDA was more appropriate. Next year, IDA-10 would, in turn, enter into negotiations and it was obvious that the same issues would be on the agenda. For the time being, he

supported Management's proposal linking resource allocation to the SPA approach because it addressed best the needs of the poorest countries.

54. The **REPRESENTATIVE of PORTUGAL** supported the proposal for the standardization of eligibility criteria among the different multilateral institutions. Nevertheless, given the various proposals made, it would be useful to receive further information on the issue before taking a final decision.

55. The **REPRESENTATIVE of CANADA** emphasized that the idea of focussing concessional resources primarily on the poorest countries was accepted by all. Nevertheless, if a low cut-off point was adopted for defining the poorest countries and if there was a rigorous blend policy that governed access to non-concessional resources based on creditworthiness, there would be, in his view, some countries that would fall between the two categories. They would be neither amongst the poorest group nor amongst those who were creditworthy according to IDA-10 criteria. He feared that in such a situation, those countries would be denied access to both Bank and Fund resources.

56. The **REPRESENTATIVE of SPAIN** indicated that he was not ready at this stage to choose a categorization system but his country was in favour of a solution that would allocate the bulk of the resources to the poorest countries. He also supported the proposal of introducing "Fund-only" countries which would be the new category A countries.

57. The **REPRESENTATIVE of NORWAY**, reacting to the Canadian delegate's statement that he could foresee problems about countries falling between categories if a rigorous and low cut-off point was chosen for ADF-only countries, pointed out that such a concern was that of all the delegates but felt that it should be addressed by an appropriate blending policy.

58. The **CHAIRMAN** thanked the delegates for their valuable contributions to the discussions and indicated that the task ahead of them was to develop a methodology based on transparency and which met the assessment criteria for poverty and development problems.

59. Summing up the various positions of the delegates, he indicated that some were in favour of the World Bank approach but would like it to be studied in detail in order to avoid

any negative consequences. Others were not ready at this stage to adopt any of the systems proposed in view of the fact that the volume of the replenishment was not yet known. Others still requested an in-depth analysis of the calculations and the consequences for the countries. In his view, it would be useful to choose first a methodology before assessing its consequences. He invited Mr. Kariisa to react to the various comments raised, particularly the Fund-only approach to concessional resources, blending, safeguarding the interest of the poorest countries and the resource allocation policy.

60. Mr. KARIISA (ADB) thanked the Deputies for their very interesting and helpful comments. He would first like to refer to the IDA classification and give a background to Management's approach. It would be useful to make a distinction between the theoretical and operational cut-off points. In principle, the Fund made no distinction between the two. The cut-off point chosen also defined eligibility operationally, whereas within IDA there was a cut-off point for eligibility which might be considered as the poverty ceiling and an operational point which reflected the availability of the concessional resources. Management's proposal was precisely for operational purposes.

61. As regards the Fund-only category and blending, he recalled that under ADF-V and ADF-VI there had been a request to prepare a comprehensive blending policy and a draft had been prepared but the policy was in the end rendered null by the fact that there was not much room for blending, given the criteria used and the resources available. It, therefore, appeared that it was the definition or the eligibility criteria selected which would allow room for defining the blending policy and its content. The definition that would come out of the discussions would enable Management to respond to this concern of delegates under ADF-VII.

62. The ADF-only question should be considered in the broader context of the activities related to the Country Strategy Papers and the implementation of the exposure monitoring. Through this process, even without the definition of purely ADF-only countries, a number of countries had emerged to be ADF-only. The proposal on the debt alleviation mechanism also dealt with the same concern because it was indicated there that the ADF-only type of countries would benefit from the debt mechanism.

63. As regards the figures presented, it was worth noting that, with the application of the present ADF methodology and the IDA-10 cut-off points based on 1992 GNP per capita

data, the present Category B countries would disappear and become Category C. Under the World Bank criteria, all Category B countries under the IDA-10 scenario were IBRD-only. He would have to do some research on the question relating to the Paris Club before responding.

64. The **REPRESENTATIVE of the UNITED KINGDOM** deduced from Mr. Kariisa's explanations that as a result of a country exposure management system put in place by Management, a group of ADF-only countries had already emerged and would like to have a list of those countries to enable Deputies to compare it with that of the World Bank to determine whether there were any significant divergences between the two. Such a procedure could also help advance the discussions because delegates had been repeating the concern that lending to Category A countries on Bank terms was inappropriate.

65. The **REPRESENTATIVE of CANADA** endorsed the British delegate's proposal on the results of the country risk exposure assessment system and for the production of the list of Fund-only countries.

66. He observed that there might be some Paris Club countries which were currently IBRD-only. If that was the case, it would have to be looked at in the World Bank context because from the conceptual point of view, there could be a mistake from the World Bank criteria and it would be unfortunate to transfer that error into the ADB Group.

67. The **CHAIRMAN** proposed that Management should do further work on the implications of an operational cut-off point to be chosen, thereby it would be wise to have the latest update on the World Bank methodology (IDA approach), as suggested by the Italian and British delegates. Since the ADF-only approach was a strong-felt opinion amongst delegates, it would be useful for Management to submit to delegates its operational guidelines on country exposure. The consequences of changing the categorization system should also be indicated in order to inform the delegates. It would also be necessary to redefine the priorities based on available resources as suggested by the French delegate.

68. If Management had some information to provide on what was asked by delegates, it could do so immediately, otherwise it should submit that for the next meeting.

REVIEW OF CRITERIA FOR THE ALLOCATION OF ADF RESOURCES (ADF-VII/CM.3/93/16) (agenda item 3.2)

69. Mr. OGUNJOBI (ADB) pointed out that there was a close link between the eligibility criteria and resource allocation as indicated by delegates. In the document submitted, Management called for flexibility in the application of the criteria agreed upon by the Deputies. Experience over the past three years had indicated that available resources could not be allocated effectively and optimally to achieve the basic objectives of the ADF, principally because Management did not have the operational discretion. Presently, the Country Strategy Papers (CSP) provided Management with indicators which made it possible to assess, in a transparent manner, the performance of countries and to determine their eligibility for resources. The fact of having the operational flexibility and discretion would enable Management to react to changes occurring in the countries. Since the World Bank had such flexibility, it was able, for example, to move Côte d'Ivoire, a blend country category because of the changing economic circumstances so as to benefit from IDA resources.

70. It was worth noting that the ADF-VI rules were fairly rigid. The sanctions to which countries in arrears of payment were subjected were not taken into account. These countries, as well as even those having a core programme did not benefit from any ADF-VI resources as a result of sanctions. There was also the case of some strong performing countries whose initial allocations under ADF-VI were fairly low, in the range of between UA 10-15 million and an increase of 25% for performance would not finance an operation having a significant impact. Management was very concerned about this operational constraint which prevented it from addressing effectively the difficulties facing the countries. If some flexibility was given to Management, Deputies could, during the Mid-Term Review, judge the assessment carried out and the resultant allocation. The Board of Directors would also monitor the implementation during project presentation for approval.

71. The **REPRESENTATIVE of the UNITED KINGDOM** commended Management for the information paper submitted recently to the Board of Directors on the Reallocation of ADF-VI Resources.

72. He compared the results of the performance categorization in the ADF with those of institutions such as the SPA and the Global Coalition for Africa and noted that the ADF

had been more generous in its assessment of strong performers and had also rated as satisfactory many countries rated as weak performers or even off track in other contexts and called for a more rigorous application of the performance criteria.

73. Referring to the document submitted to the Board of Directors indicating the pipeline of projects for allocation between then and December 1993, he had the impression that Management was interpreting the rules very flexibly. Based on the material provided by Management, his delegation was not convinced that the system was operating in accordance with ADF objectives which required resources to go primarily to the poorest Category A countries and within that to the strong performers.

74. He concluded that a strong case had not been made for changing the existing ADF-VI criteria and called for greater evidence of applying them more rigorously before agreeing to some of Management's proposals for greater flexibility.

75. The **REPRESENTATIVE of ITALY** had no difficulty with the current system and saw no need for introducing any changes but however felt that it would perhaps be useful to study just the limitations of taking into account the absorptive capacity of borrowing countries.

76. The **REPRESENTATIVE of NORWAY** supported the views expressed by the representatives of the United Kingdom and Italy.

77. As regards the apparent problem or dilemma presently facing Management in connection with the reallocation of resources withdrawn from countries under sanctions, he would have liked to have had Management's proposal on that but he believed that such a problem did not affect the present allocation policy which, without doubt was being interpreted with adequate flexibility by Management. He, however, requested explanations from Management as to how that flexibility had been adopted and wondered if a high degree of transparency had been in practice.

78. The **REPRESENTATIVE of the NETHERLANDS**, like his United Kingdom colleague, was impressed by Management's document to the Board of Directors in October on Resource Reallocation. He recognized that considerable progress had been made in the application of the performance-based reallocation process but supported the reservation

expressed by his colleague from the United Kingdom regarding the allocation given to some satisfactory performers.

79. Turning to the document under consideration, he understood the arguments put forward by Management about the factors to be taken into account in the allocation process yet felt that the document was ambiguous and would provide too much free hand to Management to allocate resources at will.

80. He insisted that the Fund adhere strictly to very clear rules so that the reallocation process would be based on objective criteria. He added that if for any reason Management felt the need to deviate from the prescribed criteria, it could always make a presentation, on a case by case basis, to the Board of Directors for consideration and approval.

81. Referring to an issue raised in the document that the current performance criteria did not leave enough room to take dynamic aspects into consideration, he believed that the dynamic dimension should be dealt with in the context of the performance-based indicators themselves in such a way as to reflect the true dynamic situations of countries and not to set the whole process aside.

82. The **REPRESENTATIVE of the UNITED STATES of AMERICA** stressed that country allocation must be earned and should be based solely on performance and no more on indicative allocation based on entitlement and access to resources. She proposed the inclusion of a core programme or no programme for non-performers.

83. She believed that the Sixth Replenishment document was a good starting point and just needed to reflect developments in areas of good governance and portfolio management.

84. Specifically, she proposed that the minimum criteria for allocating resources for policy-based lending should be sound macro-economic performance with approvals coinciding in timely fashion with World Bank operations and similar co-ordination regarding tranche releases and a sound portfolio performance for all other Fund operations. Blend country allocations should be capped at 10 per cent of ADF-VII resources. Furthermore, project size should be scaled in accordance with country allocations and there should be no more justifications of allocations on the basis of project size.

85. She called for streamlining in Management reporting and a Country Strategy Paper (CSP) which would be expected to include all relevant detailed information for each recipient country presented with the first Fund loan of the year.

86. Finally, she requested Management again to place priority on circulating documents well in advance of Board dates.

87. The **REPRESENTATIVE of FRANCE** understood Management's need for greater flexibility in resource allocation but argued that more flexibility might imply less transparency. He thanked Management for the information provided in the document but explained that in such a period of scarce resources, there was the need to put in place simple and transparent resource allocation guidelines.

88. As regards the flexibility needed and the evolutive capacity of the procedure, he recalled that the Mid-Term Review of ADF operations which was carried out every 18 months should enable any possible disparities in the allocation process to be assessed and rectified. He, therefore, called for greater prudence with respect to the margin of manoeuvre and the degree of flexibility required by Management.

89. Comparing the criteria in place with the proposal for the three changes to be made in the use of the criteria, he felt that the current criteria were simple, objective and generally satisfactory whereas the proposed changes, upon implementation, could present several difficulties which might diminish their efficacy. He, therefore, advocated the maintenance of the present criteria.

90. Recalling lessons from ADF-VI operations, he observed that the complexity of the system only allowed the laid-down rules to be partially respected, hence ADF-VI failed in its expectations. He reiterated the views of the UK delegate that ADF performance evaluations were too generous and far from satisfactory; therefore, there was the need for clear and objective performance evaluations on which the scarce ADF resource allocation could be based. He finally proposed that during ADF-VII the system be reformed by making it more simple and rigorous, particularly in the use of performance criteria.

The meeting was suspended at 11.15 a.m. and resumed at 11.40 a.m.

91. The **REPRESENTATIVE of SWITZERLAND** was of the view that the ADF should not keep a system that could not take into account legitimate concerns related to the diversity of situations as well as evolutions of the different member countries. He advocated for a high quality system which would be performance-based as well as country-focused and whose analysis would be based on a multiplicity of factors. Like the American colleague, he proposed the inclusion in such a system of a minimum core programme for non-performers. He further stressed that with respect to getting to a country-based approach, Management would have to look into the way it programmed its activities in the countries and proposed a frequent association of the Board of Directors with the programming process.

92. Finally, he believed that the report of the Task Force on Project Quality could come out with meaningful and constructive indications which could guide Management in its future operations; hence he would like to know to what extent Management envisaged to take into account those results.

93. The **REPRESENTATIVE of BELGIUM** subscribed fully to the remarks made by the French delegate and specified, as regards the flexibility needed, that urgent cases could be analyzed on a case by case basis by the Board of Directors.

94. The **REPRESENTATIVE of CANADA** agreed with some delegates on the desirability of having a country assistance strategy on which decisions on ADF country allocation could be based. In terms of performance criteria, he believed that performance reviews being used as primary inputs were useful and supported the Swiss delegate's proposal for the use of the results of the Task Force on Project Quality as an indication for country potential absorptive capacity. He also thought that some of the exogenous criteria proposed could be dealt with during the Mid-Term Review and that the debt-carrying capacity was not a fundamental criterion in resource allocation.

95. Finally, he supported the US delegate's proposal to Management in respect of the circulation of documents.

96. The **REPRESENTATIVE of FINLAND** was of the view that Management's proposal was in the right direction and was based on experiences; he supported it on the grounds that the proposals seemed to lead to a more country-based allocation system away from a strict matrix approach and associated himself with most of the views expressed by the

US and Swiss delegates in that regard. He also joined the Swiss and Canadian delegates regarding the outcome of the Task Force on Project Quality.

97. He would be in a position to endorse Management's proposal for more flexibility on condition that a clear and well established country assistance strategy system was put in place.

98. He requested clarifications from Management on the meaning of waiving the basic criteria in case a country experienced adverse changes in per capita GNP.

99. The **REPRESENTATIVE of AUSTRIA** joined delegates who were not in favour of changing ADF-VI criteria. She called for simple and transparent criteria which would facilitate operations. She subscribed to the views of the French delegate that the proposed criteria would be difficult to implement but hoped that adequate room for manoeuvre would be provided for Management during the ADF Mid-Term Review. However, she could accept the US proposal to initially allocate only a restricted amount for a core programme to be followed by allocation of additional resources based only on the outcome of performance evaluation.

100. The **REPRESENTATIVE of GERMANY** stated that the ADF's overriding principle for the future should be performance. He proposed the adoption of resource allocation systems in sister institutions whereby country assessments were conducted annually prior to any project decision. He added that such systems called for an advance circulation of documents to capitals for their information and input. He had doubts as to the appropriateness of the previous country allocation system and was inclined to believe that such programming conveyed the wrong impression of entitlement. He, therefore, felt that should such a system be retained, there would certainly be a need for a larger upper limit than the previous 25% but should the Board of Directors decide that a country was non-performing, its core programme should not be allowed to continue. He explained that a country was not rated as a good performer simply on the basis of its debt servicing capacity but on the basis of the performance results of its previous projects as well as those from other institutions.

101. The **REPRESENTATIVE of ITALY**, clarifying his previous statement on this point, stressed that he could not agree with Management's document in its totality because

the current ADF-VI approach had not been efficiently operated. He believed that it was important, before studying any changes in that approach, to adhere strictly to internationally recognized rules without any preliminary entitlements. Finally, he thought that the issue was politically important and should be free from any elements of uncertainty.

102. The **REPRESENTATIVE of JAPAN** understood Management's proposal for more flexibility and discretion in resource allocation but called for transparency so as to maintain a workable and meaningful performance guideline. As regards the amendments proposed, notably the consideration of income distribution criteria, he believed that the borrowing countries should make efforts to reduce income inequalities. He also proposed to Management to consider how to enhance the capacity of countries with lower absorptive capacity through the possible use of institutional support or Technical Assistance Fund.

103. The **REPRESENTATIVE of SWITZERLAND**, drew Management's attention to the follow-up of ADF-VI and how the transition to ADF-VII was going to come about and raised a question as to whether it had envisaged to make proposals in that respect.

104. The **REPRESENTATIVE of the UNITED KINGDOM** was dissatisfied with the approach adopted under ADF-VI whereby savings and PBL had been reallocated for regional projects instead of financing regional projects through deductions from the countries concerned, as he recalled from the ADF-VI discussions. He stressed the high importance that his country attached to adjustment operations and called on Management to find ways of addressing such a lacuna within the context of the ADF-VII arrangements.

105. The **CHAIRMAN**, summing up the discussions, observed that a broad consensus had been reached among the delegates that performance should be the decisive criterion for resource allocation. Some delegates had questioned the functioning of the ADF-VI system and others had stressed the importance of Country Strategy Papers (CSP) including a transparent assessment of performance. New proposals were made to strengthen the allocation criteria and some delegates recommended that the report of the Task Force on Project Quality be linked with the on-going ADF replenishment negotiations. There was a trade-off between flexibility and ways and means for Management to implement the established guidelines without being too rigid.

106. Vice-President LOUNES (ADB), assured the Deputies that Management faithfully followed the ADF-VI resource allocation guidelines despite the implementation constraints experienced as a result of the complexity of the package of guidelines. He explained that, within those constraints, it made efforts to put in place a weighting system which enabled it to arrive at a methodical country evaluation and classification system. He observed that it opted for a relative measure of performance based on the results obtained from a whole set of criteria. It did not however adopt the absolute measure of performance because of its complications.

107. He further observed that Management did also respect the reallocation criteria by reallocating within the resources available to each country and that there were no transfers from one category to another. He pointed out that in some cases, judgments could differ between countries but that was due to the difference in the weighting given to some criteria. The criterion for good governance was taken into account but that for political performance was not because Management did not know how to define it.

108. He was of the view that, in the implementation of such complicated criteria, it would be useful to give some measure of discretion to Management to assess situations on a case by case basis. Flexibility was not contradictory to transparency but could, on the contrary, help Management, in its case by case assessment, to present other sound and convincing arguments.

109. He proposed that the following factors be taken into account : objective and simple criteria; the least or partially subjective evaluation; discretion for Management and staff to use their professional judgement in their case by case evaluation and to transmit that judgement to the Board for consideration. To avoid instituting an arbitrary system of allocation and to make further progress, he found it essential to associate transparency with flexibility.

110. He concluded that Management was not proposing the deletion of the performance criteria adopted under ADF-VI but would rather like to introduce some simplification and flexibility to enable it perform the evaluation as effectively as possible and also to facilitate the work of the Boards of Directors when considering proposals for the modification of country allocations.

111. Mr. **OGUNJOBI** (ADB) added that the paper submitted to the Board of Directors on the reallocation of ADF-VI resources clearly indicated that the initial allocation of ADF-VI resources complied with guidelines in the proportion of 90% for countries in Category A and 10% for countries in Category B. He underlined that a few countries had exceeded their allocations because of factors related to the late ratification of ADF-VI, co-financing constraints and the need for minimum leveraging in some projects. He also stressed that the application of the 25% premium for performance in a situation where the initial allocation was very small for the performing country, made it almost impossible to live within that 25% allocation.

112. He concluded that Management had followed, as much as possible, the ADF-VI guidelines and believed that it was important to be accorded the flexibility requested to enable it manage the portfolio much more efficiently to reflect the needs of ADF directives.

113. The **REPRESENTATIVE of FINLAND** wanted to know whether it would be feasible to carry over ADF-VI resources to ADF-VII.

114. The **REPRESENTATIVE of FRANCE** noted that the discussions had revealed the importance that all delegates attached to performance criteria and its implementation modalities.

115. Reacting to Vice-President Lounes' intervention, he believed that the need for clarity, recommended by all delegates, should lead to greater objectivity. He had a strong reservation to his remark that country performance was relative and preferred to go further into a performance evaluation which was, in absolute terms, quantified and objective. He, however, agreed that judgment would have to be made in the final analysis but felt that that judgment should fall within the purview of the Board of Directors.

116. Mr. **KARIISA** (ADB) responding to the question on carrying over ADF resources to ADF-VII, said that any outstanding ADF-VI resources would be carried over to ADF-VII, in keeping with past practices. He explained that the document on ADF-VI resource reallocation submitted to the Board of Directors in October indicated the commitments as of September 1993 and the pipeline in the fourth quarter work programme. Due to slippages and other uncertainties, the remaining pipeline would exceed the amount of available resources and theoretically present cases of excesses in the initial allocation. Nevertheless,

surpluses could become available as a result of circumstances such as negotiations not taking place, non-approval of projects or from special contributions such as those from Norway and Netherlands which were not yet committed. Any such surpluses would be carried over to ADF-VII but were yet to be quantified.

117. Referring to UK's observation on multinational projects, he stated that, unlike the ADF-IV and ADF-V, the ADF-VI did not envisage any special allocation for multinational projects but stated that in furtherance of the objective to promote regional integration, multinational projects should be encouraged and financed within ADF resources. Getting allocations from individual country allocations, especially from countries with small initial allocations was not always practical and would have left a meaningless programme for some countries. Consequently, to maintain the spirit of regional integration, Management found it logical to use the uncommitted portion of PBL operations together with proportionate deductions from country allocations to make allowance for multinational projects. It, however, ensured that those deductions did not impact too seriously on individual country allocations. He asserted that performance evaluation must be seen as a dynamic process and could, therefore, not be up to the moment. He explained how the July performance evaluation of RMCs had been carried out and assured the Deputies that any further information on performance which had become available since the July evaluation would be reflected in the data.

118. The **REPRESENTATIVE of AUSTRIA** demanded to know the number of Category A countries whose allocations were below the 25% premium and also whether the evaluation process was a comparison among countries and not based on objectives.

119. Mr. **KARIISA** explained that the evaluation process was undertaken through the award of points based on several weighted criteria rated on a maximum score of 4 points after which the ranking was done. The regions within which the countries were found were also reviewed and listed. He pointed out that the relativity came in at the point of evaluation of each of the criteria, through the perception of the various assessment officers; apart from the normal criteria of growth rate, debt service etc the rest were relative concepts.

120. As regards the number of Category A countries with allocation below the 25% premium, he mentioned that any country with an allocation below UA 40 million would fall within that category. He cited countries like Gambia, Burkina Faso and Benin.

121. The **CHAIRMAN** suggested that Management should provide those technical details directly to the Austrian delegate. He recalled that there was the question as to whether or not additional or new allocation criteria should be developed or whether that could be the role of the Task Force.

122. The **REPRESENTATIVE of the UNITED KINGDOM** thanked Management for the explanations provided. He gathered from Board documents on ADF resource reallocation that allocations were being transferred from Category A countries to B countries and that trend was likely to be intensified because of excessive flexibility applied by Management in the reallocation process. He was concerned about the way multinational projects were funded and proposed that the issue be placed on the agenda for consideration with respect to ADF-VII.

123. The **PRESIDENT (ADB)**, reacting to the question as to whether or not Management was ready to take into account the results of the work of the Task Force, mentioned that, due to time constraints, it would be difficult to obtain the Task Force's report for the present ADF meeting. He, therefore, proposed that Mr. Knox, the chairman, be requested to make a presentation to the January 1994 meeting in Copenhagen.

124. He was certain that the recommendations of the Task Force would be most welcome given that it was established to improve the overall quality of the Bank Group's portfolio. Its report would be submitted first to the Boards of Directors for formal consideration. But the dilemma was whether or not they or the Boards of Directors would be disposed to endorse the recommendations.

125. He informed the Deputies that the Task Force's work schedule should send them on mission to some of the RMCs, notably Morocco, Kenya, Zimbabwe and Côte d'Ivoire for consultations with loan beneficiaries, executing agencies and authorities of those countries. The Task Force would also meet with the Bank Group's Executive Directors in Côte d'Ivoire. Cognizant of the impact of such missions on its initial budget and in order not to impair the quality of its work, he had asked for budget estimates for missions to be submitted to the Boards of Directors for their consideration and approval.

126. The **CHAIRMAN** thanked the President for the information provided on the Task Force and believed that it would be useful to communicate to the Task Force relevant points

discussed at the present meeting which could be used as reference in carrying out its work. He welcomed the suggestion to meet Mr. Knox at the January 1994 meeting and pointed to the need to prepare specific issues for discussion with him.

127. Summing up the discussions on resource allocation criteria, he observed that both Management and the donors had endorsed the applicability of the ADF-VI criteria. Some Deputies raised specific questions and observations about the modalities used in carrying out performance evaluation and argued for very objective and measurable criteria. He welcomed the proposal to submit a professional assessment of certain cases for the Boards' approval as a valuable instrument for a sound implementation of ADF-VI guidelines.

128. He concluded that the majority of the delegates were presently not in favour of Management's proposal for changes in the ADF-VI criteria but would like the discussions to continue with the Task Force on Project Quality to see whether that could lead to amended allocation guidelines for ADF-VII.

ADF DEBT ALLEVIATION MECHANISMS REVISITED (ADF-VII/CM.3/93/14)
(agenda item 3.3)

129. Mr. LONDON (ADB), in his introduction, stated that the issue of debt reduction had featured quite prominently since the beginning of the consultation process and the central issue appeared to be how the Fund could join other international efforts in addressing this important question, particularly with reference to non-concessional debt owed to the Bank.

130. He briefly reviewed the discussions held during the first and second meetings in Abidjan and the Hague, pointing out that there was no consensus, on both occasions, on the full range of Management's proposals for debt reduction mechanisms under ADF-VII and clarifications were requested on some areas such as the arrears issue and the flow of interest payments approach for Category A countries pursuing internationally approved adjustment programmes and a review of the issue of country eligibility and classification was also required.

131. Against the above background, he stated that the paper under consideration attempted to reflect the broad views of Deputies at the Hague meeting and to build on ideas on those options which would be explored in greater detail.

132. The proposal dealt with Category A countries as currently defined. It also tried to make a differentiation between the kinds of debt relief or support to be offered to performing and non-performing countries. In line with the special emphasis placed on performance in determining access to resources for debt relief, no assistance would be offered to non-performers. It also emphasized that debt relief would not be considered as an entitlement but would have to be earned, hence only countries with good performance would be rewarded.

133. The paper also suggested limits on non-concessional borrowing by beneficiary Category A countries and tried to address the issue of moral hazards in a transparent and equitable way to reflect Deputies' concerns.

134. As regards the additional flow of resources to address the flow of interest payments required, Management proposed an indicative range in the order of UA 150-230 million. Nevertheless, considering the flow principal repayments of Category A countries, Management drew attention to a higher estimate close to UA 600 million, but warned that its adoption would depend on a final determination on issues not yet settled such as country classification, performance evaluation and the arrears situation.

135. The **REPRESENTATIVE of DENMARK** thanked Management for the revised proposal which, in her view, constructively reflected Deputies' concerns at the Hague meeting. She pointed out that the primary goal of the debt alleviation facility within the institution, was to assist Category A countries in continuing to service their debts to the Bank. The facility would provide the incentive which would be helpful in preventing them from falling into arrears and having their loan disbursements suspended, since such steps could compromise important development opportunities. Besides, being beneficial to the eligible countries, she added that this mechanism, which was in principle similar to the World Bank's Fifth Dimension Facility would also be advantageous to the general standing of the Bank.

136. She was satisfied with the content of the proposal because it included many of the elements that her Government would like to see; namely, the restriction of the facility to Category A countries, the provision of relief for interest on Bank loans and performance being the overriding criterion for access to debt relief. Nevertheless, she noted one obstacle in Management's proposal which concerned the future borrowing patterns of eligible countries. In her view, those countries should refrain from borrowing at market rates from

the Bank until they had regained full creditworthiness.

137. The **REPRESENTATIVE of JAPAN** appreciated Management's efforts for trying to reach a compromise based on a wider range of comments made at the Hague but believed that there were still difficulties and problems in the proposal. Referring to the World Bank's Fifth Dimension Scheme and that of the FSO of the IDB which were basically financed, not by new money but by reflows or investment returns, he pointed out that no international institution was permitted to use new money for such a scheme, hence the same should apply to the Bank Group. He also believed that there was some confusion in the concept of the scheme.

138. He referred to the legal opinion on the issue which had just been distributed and expressed his wish to reserve his comments on it, even though he believed that the proposed scheme was not consistent with the spirit of Article 15 of the Fund Agreement.

139. He also wanted Management to review the Bank's financial position and was convinced that after an in-depth study, an appropriate solution could be found to the debt problem.

140. The **REPRESENTATIVE of FRANCE** welcomed the principle of Management's proposed debt alleviation mechanism which, in his view, was comparable to the World Bank's Fifth Dimension Facility but wanted clear conditions to be imposed for its implementation. Countries in arrears situation should not be eligible for debt relief and in that context, he felt that Management's proposal contained a vague notion of countries in temporary arrears situation and that was not acceptable to him. Furthermore, eligibility of some countries to the proposed mechanism should be subject to rigorous conditions preventing them from contracting non-concessional loans.

141. The performance evaluation should be a key criterion in the implementation of such a mechanism and it should be based on objective, traditional and international criteria, endorsed by the Board of Directors. He finally emphasized the importance of this issue to the Bank Group's operations.

142. The **CHAIRMAN** observed that the French delegate's remarks on arrears did not seem to be compatible with his earlier remarks indicated in paragraph 160 of the Summary

Records of the Hague meeting and would consider that at a later stage of the discussions.

143. The **REPRESENTATIVE of BELGIUM** proposed that they first discuss the content of the legal opinion distributed on the issue before taking any decision.

144. The **CHAIRMAN** thanked the previous speaker for his suggestion and urged delegates to digest the distributed legal opinion over lunch to enable them discuss it during the afternoon session.

145. The **REPRESENTATIVE of FINLAND** supported Management's proposal as presented although he recognized that it neither addressed the Bank's arrears situation nor the debt alleviation mechanism. He, however, believed that it was a useful mechanism for countries which were current in their obligations to the Bank and could be a worthy example for other countries.

146. Referring to paragraph 26 of the Summary Records concerning the possibility for beneficiary countries to be provided with non-concessional loans, he believed that it was inconsistent with the rules, in particular since one of the objectives was to address the balance of payments situation of countries.

The meeting adjourned at 1.15 p.m. and resumed at 3.30 p.m.

147. The **REPRESENTATIVE of FRANCE**, clarifying his position, stated that during the previous meeting in the Hague, his delegation had requested some degree of flexibility for the maturity of arrears payments. At the present meeting, his delegation observed that the concept of temporary arrears situation in the proposal was vague and not acceptable to it. In its view, that concept could only be accepted when the specific date of payment was known. It, therefore, requested that a very precise definition of the concept of arrears situation be provided by Management, and consequently, did not find any contradiction between the views expressed in the Hague and those just expressed.

148. The **REPRESENTATIVE of SWITZERLAND** emphasized the relevance of the debt issue and the need to discuss it. He pointed out that Management's presentation did not provide any specific solutions for countries currently in arrears to clear those arrears before gaining access to the Bank's debt facility and his delegation would like to look into that

aspect, possibly following the IMF and the World Bank's precedence.

149. As regards the proposals as presented, they should not be considered as an additional financing source but rather as part of the global financing which could be provided under ADF-VII.

150. His delegation also felt that maybe the best way to address the debt problem would be, not through the determination of performance indicators of one moment but through the mechanism of Structural Adjustment in the sense that current debt payments could become part of Structural Adjustment loans whose conditionality would include the performance criteria.

151. Finally, he pointed out another problem related to countries in chronic arrears situation. Even though some proposals had been made as to how to treat it, his delegation would rather have it looked at separately as a special problem.

152. The **REPRESENTATIVE of BELGIUM**, after considering the legal opinion, was not persuaded that Management's proposed debt alleviation mechanism was compatible with the provision in Article 15.8 of the Fund Agreement that "the Fund shall not engage in refinancing operations". On this basis, he logically assumed that the refinancing of projects not originally funded by the Fund could not be acceptable to this same Fund Agreement. He called on his colleagues to reflect on this problem.

153. Nevertheless, should there be a broad consensus to establish some kind of debt alleviation mechanism, he would propose that the following conditions be respected : "access to debt relief limited to only strong performers; definition of appropriate performance schedule; non-authorization of beneficiary countries for non-concessional ADB loans; deduction of debt relief allocation from the normal allocation anticipated."

154. Finally, he requested clarifications on the notion of temporary arrears as proposed by the French delegate.

155. The **REPRESENTATIVE of the UNITED KINGDOM** reiterated his view expressed in the Hague that he saw no case whatever for a debt facility of this kind in the ADF. He argued that Management had not advanced any convincing analysis for a

generalized problem of debt servicing on Bank terms and requested for one covering the overall debt servicing requirements of ADF borrowers. He pointed out that work done elsewhere suggested that only a handful of African countries were facing problems with their multilateral debt servicing.

156. Furthermore, the features leading to the establishment of the World Bank's Fifth Dimension were different from those of the ADB Group. He recalled that the IDA debt profile enabled it to devise a scheme involving upfront disbursements of money rather than committing reflows against normal projects; hence the debt profile was a dwindling one which would be extinguished in the next few years. Conversely, the ADB debt profile was rising and in the absence of reflows, there was the need to use new donor money. In these circumstances, available resources were rather channelled into strong adjustment programmes which provided the basis for growth recovery and servicing of debt obligations, including those of the ADB.

157. The **REPRESENTATIVE of the UNITED STATES of AMERICA** believed that there was the need to look at the Bank's debt policy and situation in a general context, should a programme similar to the Fifth Dimension be set up for the ADB Group.

158. She concurred with some points expressed by his Swiss, French and Japanese colleagues that the resources should be part of the replenishment and should not be considered as additional recognizing that provision should be made for bilateral contributions as well as strict adherence to performance criteria.

159. Her Government was seriously concerned about the debt situation and believed that it merited further reflection and consideration in order to come up with some creative solutions. Her delegation appreciated Management's proposal but, in her view, it merited further discussion and it intended to pursue that.

160. The **REPRESENTATIVE of NORWAY** pointed out that his authorities were not opposed to the ADB dealing with the debt problem of African countries, in particular those of the poorest counties and found it appropriate that debt proposals had been put forward within the framework of the ADF negotiations.

161. His authorities had a fundamental problem with respect to the specific proposal and

were in a dilemma since no reflows were available to finance the facility and no additional resources might be provided. Notwithstanding the treatment given to the problem of moral hazards in the proposals, they were still left in a moral dilemma to reduce funds available for new projects in the poorest countries that had cautiously refrained from ADB borrowing and allocate those funds to countries that had not demonstrated the same caution.

162. Consequently, his authorities had difficulty in supporting a substantial share of ADF-VII resources to be reserved for the proposed mechanism.

163. The **REPRESENTATIVE of the NETHERLANDS** thanked Management for the debt alleviation paper which, in his view, reflected many of the comments made at the Hague and also met his delegation's own ideas on the subject. He stressed the importance of restricting the facility to only good or satisfactory performers and to countries not in arrears.

164. He proposed, as a solution to the Norwegian delegate's dilemma, the setting up of country limits to the size of country allocations under this scheme. He pointed out that the basic difference missing from Management's proposal was the fact that the scheme's beneficiary countries should no longer benefit from ADB lending. He was not in favour of Management's proposal to put in place pockets of investment methodology or escrow accounts because he had doubts about the wisdom of such arrangements, considering their proliferation in other parts of the world. He questioned the usefulness of the distinction by some delegates between reflows and new money and explained that both reflows and new money were part of the commitment authority from which new policies would be funded.

165. He endorsed the views expressed by some delegates that Management's proposal would not solve the debt problems of countries which were already in arrears and in that regard he would encourage Management to consider that problem along the lines expressed by the Swiss delegate.

166. Referring to the remarks made by the UK delegate that his Government would prefer to use new money for stronger adjustment programmes, he believed that it might be possible to combine such a scheme with traditional structural adjustment loans so that beneficiary countries would also be inclined to execute strong structural adjustment programmes.

167. The **REPRESENTATIVE of SWEDEN** thanked Management for the refined proposals for debt reduction mechanisms which, in their view, met the concerns expressed at the Hague meeting. He added that his delegation would remain open to continue discussions on the proposed mechanism.

168. He made a general observation that the issue was regarded by his delegation as an element within a comprehensive policy for balance of payment, import and debt reduction and pointed out that his country and other interested ones would be organizing a conference on that early next year. His delegation also believed that, in addition to the primary purpose of the scheme namely, to support economic reform processes in eligible beneficiary countries, it should also be seen within the framework of the efforts to preserve the financial stability of the Bank Group. His delegation was also greatly concerned about the need to link the proposal to the elimination of further non-concessional Bank lending to beneficiary countries in order not to increase their non-concessional debt burden.

169. His country would have liked to have advocated, the inclusion of ADF reflows in the proposed mechanism based on IDA's practices but recognized that it would not be appropriate to do so at this stage since the reflow situations in IDA and ADF were different. Nevertheless, it would welcome further consideration of that possibility at a later stage, possibly at the Mid-Term Review. It also believed that a broad participation in the scheme was essential and hoped that, if it became effective, it would become an integral part of the replenishment rather than covering it with special donor contributions; eligibility to the scheme should also correspond to the rules of IBRD's Fifth Dimension. Finally, he stressed that his comments related to the principle of introducing an ADF debt mechanism and did not mean additional resources for the proposed mechanism as indicated in Management's paper.

170. The **REPRESENTATIVE of ITALY** confirmed his negative position on the proposal for debt alleviation mechanism. Nevertheless, considering the association of Management's proposal with practices in other MDBs, he reiterated his request for the following statistics in order to clarify the arrears situation : statistics on both ADF-VI and ADB disbursements by country and years, and a statistical table presenting arrears of countries, their origins by project and the timing for each one.

171. He emphasized that the information to be provided was fundamental to his country

to enable it establish the burden sharing of the proposed mechanism. Furthermore, his country could not accept the idea of utilizing ADF resources to settle arrears owed by the RMCs. Finally, he stated that, should there be a majority view in favour of instituting the proposed mechanism, his country would dissociate itself from that view.

172. The **REPRESENTATIVE of CANADA** welcomed the paper and commended Management for the efforts made in preparing such a paper in the absence of a consensus at the Hague meeting. However, he was also of the view that the paper did not address the fundamental issue of arrears to the Bank and would encourage further discussions with a view to finding appropriate solutions. He believed that his country would in principle support the proposed mechanism since it was similar to the Fifth Dimension scheme that it had fully supported but would like to propose for further consideration, a pre-condition linking the implementation of this initiative to the establishment of a Fund-only category. Such a pre-condition should help resolve some of the concerns raised by the delegates of Denmark and the Netherlands, in terms of no further Bank lending to countries having access to debt relief.

173. He agreed with the comments made by some delegates as to the structure of the proposed mechanism under ADF and believed that it should be an integral part of the Fund replenishment and not an addition or a complement to it.

174. Finally, he was of the view that the proposed mechanism was not totally compatible with the provisions of the Fund Agreement and would like to seek further legal opinion on that.

175. The **REPRESENTATIVE of KOREA** recalled the Vietnamese case of solving arrears of IMF loans and reiterated his country's viewpoint on the issue at the Hague meeting that, the utilization of ADF resources for RMCs' debt reduction was not consistent with the purpose of the Fund's establishment. ADF resources should be used as seed money to generate new jobs and income in beneficiary countries. He pointed out that his Government would have difficulty in contributing to the ADF replenishment if the resources would be utilized for debt alleviation. He, therefore, proposed that the debt reduction issue be resolved through other means such as the Vietnamese case of bilateral support.

176. The **REPRESENTATIVE of GERMANY** also commended Management for the efforts made in preparing the paper despite the divergent views expressed on the subject in the Hague.

177. Elaborating on his delegation's position taken at the Hague, he reiterated that in line with their basic approach that Category A countries eligible for Fund resources should not receive new Bank loans, those benefitting from debt relief support should also be excluded from incurring parallel new Bank financing. Furthermore, the use of ADF resources for debt servicing, which was undoubtedly a quick-disbursing instrument, should fall into the same category as other policy-based lending. Finally, he was inclined to propose that they consider the debt alleviation issue within the context of policy-based lending.

178. The **REPRESENTATIVE of AUSTRIA** was not convinced by the General Counsel's arguments for the compatibility of the proposed debt alleviation mechanisms with Article 15 of the Fund Agreement. She also believed that Article 14 which was referred to, could also be interpreted to include any activity which could finally lead to the social and economic improvement of RMCs. She would, therefore, discuss the legal aspect further with her legal department. She, however, acknowledged the remark made by the British delegate that the Fund and the Bank were faced with problems which were very different from those of IBRD and IDA. She also found herself in the same moral dilemma as the Norwegian delegate and could, therefore, not support a general scheme for debt alleviation activity. Besides, should donor countries decide that the Fund should enter into debt alleviation activities, it could always do so through special contributions.

179. The **REPRESENTATIVE of PORTUGAL** supported the German delegate's position.

180. The **REPRESENTATIVE of CHINA** joined his colleagues in thanking the Government of Burkina Faso as well as the Bank's Management for giving them such an opportunity and for organizing a visit to one of the ADF's projects which was assessed to be socially and economically viable.

181. He emphasized the importance of the debt alleviation issue in Africa. His authorities supported ideas to find appropriate solutions to the issue and in that regard, appreciated the efforts made by the Bank Group. He argued that since there was no consensus on the use

of ADF resources to fund the debt alleviation mechanisms, and, mindful of the complexity and difficulty of that issue, he believed that it would be a good idea for the international community to come to a common understanding and work out appropriate solutions to the problem. His delegation would continue to explore possible solutions to the problem.

182. He also stressed that the proposed debt alleviation scheme would only solve issues in the past and recommended that the Bank Group should consider how to make its future projects more efficient and to prevent arrears situations from arising. Economic growth should also be emphasized as the most important solution to the issue. He hoped that in future, Management could find better ways to support projects for economic growth in the RMCs.

183. The **REPRESENTATIVE of SAUDI ARABIA** also emphasized the need to solve the debt problem and agreed with Management's proposal that countries would be categorized according to their performance. He requested explanations for the difference between the country performance statistics of the Bank Group and those of other international institutions.

184. The **REPRESENTATIVE of KUWAIT** recalled that, during the Hague meeting, he did advocate for the use of ADF resources to solve the debt issue and did ask Management for elaboration on the issue but after reading the present document he felt that it did not really deal with the fundamental debt problem of African countries, hence, his delegation was not ready to utilize ADF resources for debt alleviation and would recommend finding other means to solve the problem.

185. The **CHAIRMAN**, in his summary, mentioned that debt as a phenomenon in Africa was important. He observed that there were diverse views on the debt issue. A few delegates claimed that there might not be such a big problem with debt within the Bank Group. Others, on the contrary, felt that that was a problem which involved both the Bank and the Fund. There were also delegates who requested clarifications on the arrears policy of the Bank showing the implicit linkages of the Bank and the Fund in their operations.

186. The discussions also revealed the responsibility that Fund donors should exercise by having a more in-depth consideration of the debt problem to see the possibilities or decisions which would allow it to play a role. Several delegates saw no role for ADF but proposed that the problem must be dealt with. Some also suggested that although they were not in a

position to fully endorse the proposal they were open for further discussions. He, therefore, believed that, in the absence of a consensus, it would be useful to put in place a mechanism for further discussions on such an issue which was relevant for the Bank Group as a whole. But, before then, he called on Management to respond to the comments and observations made by the Deputies.

187. Mr. LONDON (ADB), responding to some of the observations made, thanked the Deputies for the rich comments made on the proposals submitted by Management.

188. As regards the issue of temporary arrears, he stated that broad indications on arrears for various periods were provided in the annex to the document. Furthermore, the determination of a temporary arrears situation could be made within the context of the Bank Group's financial policies or any concurrent or complementary types of arrangement.

189. With respect to the reference made to elements of confusion or lack of clarity as to the clearing of arrears, he apologized, if Management was not as clear as it should on that but explained that the undertaking that was being given in the paper was that, should assistance be offered, beneficiaries needed to take necessary action to clear their arrears first. He pointed out that the arrears issue was only one of various criteria to be used in determining access to resources; hence a country could be out of arrears and not be a satisfactory performer.

190. On the question of SAP conditionality and balance of payment support, he mentioned that in addition to the proposal submitted, the issue could be examined in the context of policy-based operations during ADF-VII but the degree of the Fund's intervention would depend on that proposal and the volume of resources available.

191. Management had taken due note of the strong concern expressed about restrictions to Category A lending and a subsequent paper would present the implications of that restriction with respect to the degree and volume of fund activities. He hoped that Deputies might wish to return to that aspect when that paper would be discussed.

192. As to whether or not countries that somehow had been imprudent in their non-concessional borrowing were rewarded, he observed that that was a difficult question but agreed that there was a problem of weighting countries and of access to resources and

Management did not want to engage in the problem of moral hazard. Nevertheless, one way of solving that problem could be through the establishment of probable country limits.

193. A specific answer could not be given as to why the Bank Group's performance evaluation was different from that of other international institutions. He was not clear about the evaluation systems of other international institutions but there were bound to be areas of disagreement between them. Nevertheless, the performance evaluation listed in the paper reflected the views of the Bank at the time those rankings were made.

194. As regards the question of chronic arrears, he indicated that Management undertook that exercise to try to further the debate on this issue, to enable it follow at best the guidance provided thereon.

195. Mr. **BUCKNOR** (ADB), adding a financial perspective to the discussions, linked the issue of the Bank Group's arrears situation with the financial policy paper presented to the Boards in June 1993, based upon which a number of decisions had been taken regarding the treatment of non-accrual of loan income and arrears. He explained that the period of non-accrual of loan income would now begin after 6 months of arrears and that a policy of general provisioning at the new levels of 2.5% of total loans in 1993 and 3% thereafter, would replace the previous practice of specific provisioning. Special mention was made in the financial policies paper that those recommendations had been made after careful consideration of the current financial situation of the Bank, its future prospects and the financial imperatives of the FYOP.3 period. They would also require a significant level of commitment from the Boards, Management and shareholders. When implemented with the proper level of commitment and understanding, those policies would lead in the long run, to an improved financial profile for the Bank which was an essential element for the fulfillment of its longer term financial mandate.

196. He also recalled that in May 1993 a report was commissioned by the Nordic countries and was being discussed by the ADB/ADF Consultative Committee. Drawing a link between this report which had 24 recommendations, 19 of which were also reflected in the Bank's financial policy paper and the context in which the debt relief mechanisms were being discussed, he noted some pertinent observations made in the report; first, that efforts to strengthen the ADB's balance sheet to cope with the consequences of a deteriorating portfolio would have an immediate impact on the income statement and second, that, how

much of a stock the ADB's income statements could withstand in any given year to improve its balance sheet without causing destabilizing reactions, would always be a matter of fine judgment which could not be established without any precision. The report also indicated that the cost of misjudgment on the issue could be high and this called for much caution, stressing that in tight conditions, donors should resist the natural urge to provide arguments for increasing the ADF-VII replenishment.

197. It was also pointed out that such views were accompanied by doubts as to whether or not the ADB should benefit from the IDA Fifth Dimension type of facility. It further mentioned that those concerns did not appear to recognize practical realities in the sense that, should net transfers from ADB to debt-distressed countries decline precipitously, their willingness and capacity to repay the ADB would certainly be affected. Consequently, any attempt by donors to address the financial problems of the Bank Group without being prepared to increase the ADF resources was likely to be one-sided and impractical. It would worsen the ADB's rate of portfolio deterioration and marginalize, if not trivialize, its development role in the low income African countries.

198. Summarizing the impact of recently adopted policies on the Bank's future net income prospects and answering the question, what do the scenarios currently show?, he stated that, assuming that countries currently in non-accrual status would continue to be in that status for the foreseeable future and that no new countries would come into that category, current estimates indicated that the impact of provisioning on non-accruals in 1994 would reduce the Bank's revenue stream by about UA 147 million in 1994, UA 115 million in 1995 and UA 119 million in 1996, based on a mid-case scenario where about ten countries would be in non-accrual status.

199. Furthermore, in the event that all Category A countries benefitted from a Fifth Dimension type of debt relief facility focused on interest and considering that the list of countries currently in arrears to the Bank did not expand, the Bank's financial ratios would still remain under pressure and the Bank would be vulnerable to shocks from new countries coming into non-accrual status.

200. In conclusion, he proposed that control measures should be put in place to address the financial standing and vulnerability of the Bank Group. Those measures should limit increased exposure to the riskier borrowers, improve the Bank's net income margins and

reserves-building capacity as well as prevent a further significant deterioration in the quality of the future revenue streams. Outstanding borrowings, tied in with liability management activities should also be carefully controlled.

201. He further argued that a base case for any debt alleviation ideas designed to achieve the control measures proposed within the context of the ADF replenishment and which emphasized the complementarity of the institutions in the Bank Group, should not restrict itself only to interest payments but to the totality of the flows from the Category A countries. Significant efforts should also be made by the Bank to manage its residual risk exposure and meet minimum performance targets. Based on the reality of the numbers before them, the earlier concrete proposals were addressed to this issue, the better for the financial standing and vulnerability of the Bank Group.

202. The **CHAIRMAN** thanked Mr. Bucknor for the very valuable background information provided on the newly adopted financial policies of the Bank and believed that ADF donors should find a mechanism of clearing information on issues of Bank policy which were relevant to Fund issues, particularly those having specific bearing on proposals to be developed for debt alleviation mechanisms.

203. The **GENERAL COUNSEL** (ADB) observed that the information provided by the Bank's Treasurer focused very sharply on the financial context in which the question as to whether or not the Fund should institute the debt alleviation mechanism, could be most usefully discussed. He explained that the two previous consultative meetings conveyed a feeling that there was a broad tendency favouring the institution of the proposed scheme, given the handful of categorical "nos" repeated in the two meetings. Furthermore, the Fund could intervene in the proposed scheme through Article 2 of its Agreement which stipulated that its purpose shall be "to assist the Bank in making an increasingly effective contribution to the economic and social development of the Bank's members" He was, therefore, of the opinion that the question should be considered in the light of the potential help the Fund could give to the Bank, by instituting such a scheme. In addition, Article 14(1) and (2), concerning the Use of Fund Resources, embodied very large prescriptions which could accommodate Management's proposals. Consequently, it was clear that the Fund should have no problems to implement those proposals.

204. As regards the question, "can the Fund carry out such an operation?", he explained that it all depended on whether the participants in the Fund were inclined to act in this way. If the Fund judged it appropriate at this time to provide its assistance to the Bank through Management's proposal, it would fall within the purview of the Fund's owners to interpret the constituent document in such a way as to be able to institute the proposed scheme. Therefore, his advice was that the Fund could carry out the proposed debt-alleviation scheme if State Participants so desired.

205. The **CHAIRMAN** observed that the General Counsel's response seemed clear and logical since only the Fund's shareholders had the power to change the Articles.

206. The **REPRESENTATIVE of ITALY** wanted to know from the General Counsel whether debt forgiveness was a sound financial policy for the Bank, in the light of a provision in the Agreement that its operations should be made on a sound commercial basis.

207. The **GENERAL COUNSEL** first of all clarified that Management's proposal was not really a question of debt forgiveness. However, he referred to some refinancing techniques which could be very sound financial practices because they enabled the organism which had its indebtedness reduced to rejuvenate itself and improve the quality of its stock. Furthermore, he referred to the Bank's sanctions policy and its evolution over a decade and pointed to the harm being done to both the Fund and the Bank if there was no intervention at a certain point. He concluded that debt reduction could be a very sound financial practice depending on circumstances and he felt that both the Fund and the Bank were at such a point in the life of the two institutions.

208. The **REPRESENTATIVE of BELGIUM**, reacting to the legal opinion provided, felt that, before defining the operation and determining its operational modalities, it would first and foremost be essential to find out whether or not the Fund Agreement authorized the implementation of such a scheme, hence he advocated that the starting point be defined with reference to the Fund Agreement.

209. The **REPRESENTATIVE of CANADA** observed that a functioning Bank was important to all shareholders and the contrary would not help the Fund function at all. He thanked the Treasurer of the Bank Group for his frankness in the elaboration of the Bank's financial situation and believed that it would be useful for that same elaboration to be shared

with regional shareholders of the Bank. An overview, such as presented would also be very helpful to the deliberations of the Consultative Committee Meeting.

210. The **REPRESENTATIVE of FRANCE**, referring to the ADB Treasurer's statement, felt that they should be clear on the principle of the debt alleviation mechanism. He explained that the Fund's desire should be to help deserving countries and not to clean up the Bank's balance sheet. Utilizing ADF resources to clean up the Bank's balance sheet raised the problem of moral hazard. To clean up its balance sheet, the Bank should rather put in place sound management policies.

211. The **CHAIRMAN**, summing up the discussions observed that the linkage between Bank operations and Fund activities was made clearer in the deliberations. It was also learnt that financial policies had a bearing on the Fund's decisions and might have a bearing on the question as to whether and how the Fund's involvement in debt alleviation mechanisms could be appropriate. He mentioned that the Canadian delegate referred to the ADB/ADF Consultative Committee as a joint body which could talk about financial policies which might constitute the basis for a further discussion on concrete proposals on debt alleviation with the involvement of the Fund in a way deemed acceptable by the Deputies. In the absence of a clear consensus, he proposed to submit to Deputies and Management the following day, an informal paper for further discussion and reflection on the issue so as to arrive at how best to proceed. He, however, noted the willingness of several Deputies to further discuss on the point.

212. The **PRESIDENT** (ADB) shedding light on the discussions, recalled that the objective of Management's proposal was at the same time to help the low-income debt-distressed countries to restructure their current debt profiles by reducing their debt vis-à-vis the Bank and other institutions, in order to benefit specifically from ADF support. The proposal was, therefore, not to clean up the ADB's balance sheet.

The sitting was adjourned at 4.45 p.m. and resumed at 5.15 p.m.

213. The **SECRETARY-GENERAL** announced that the Head of State of Burkina Faso would receive representatives of the various delegations the following morning at 9.30 a.m. in his office. The day's meeting would, therefore, begin at 10.30 a.m.

CONSIDERATIONS ON SUPPORT FOR MICRO-ENTERPRISES (ADF-VII/CM.3/93/13) (agenda item 3.4)

214. Mr. WOLDU (ADB) explained that the paper attempted to build on the exchange of views at the Second Consultative Meeting, to outline features of the proposed pilot credit delivery mechanisms and to provide clarifications on some pertinent issues raised in the Hague. He reiterated that the presentation would give a general picture of the proposal since the operational guidelines would be set out in the Lending Policy for ADF-VII, after the Board's approval.

215. The introduction recapitulated the elements of the proposed support for micro-enterprises and commented briefly on issues raised by Deputies in the Hague. The paper also recalled the framework for credit delivery and its mechanisms. The pilot programme was to commit FUA 75 million over the ADF-VII period, providing individual credit ranging from under \$100 to \$7,000. Technical assistance support for training and institution building activities in favour of micro-enterprises and intermediaries would also be provided. The funds would be utilized on a revolving basis. The scheme would have a rural orientation to address poverty concerns more effectively, particularly the needs of women entrepreneurs.

216. With regard to the credit delivery mechanisms, the pilot programme would employ two approaches; first, non-government guaranteed loans, accounting for about 8% of the pilot programme resources, would be directed through selected intermediaries, including NGOs. Second, government-secured lines of credit, over 75% of the programme's resources, would be provided to national-level institutions which would then employ other intermediaries to reach final borrowers.

217. As regards the question as to why the proposed scheme would fare any better than the experience with lines of credit to FDIs, Management believed that the conditions for success were more conducive because (a) the proposal was modelled on feasible schemes in other developing countries, including those in Africa; (b) the Fund had already made important starts in the area and (c) the use of private channels and the increased recognition accorded to markets and prices in general guard against the politicization of credit administration.

218. The rationale for micro-enterprises support stemmed from its contribution to both

economic growth and poverty reduction and there was no dichotomy between those objectives. Government guarantees would be sought on global loans but not on those channelled directly through NGOs and other intermediaries. With appropriate care in the selection and supervision of intermediaries, reimbursement of unguaranteed loans should not prove unmanageable, and, when necessary, sanctions would be applied against defaulters.

219. The Fund's effectiveness in the selection and supervision process would be important in determining the appropriate level of administrative costs that would be passed on by the intermediaries to micro-projects. Only intermediaries with established records of cost-effective credit administration would be considered as fund collaborators in the programme and a more rigorous selection and supervision process would be necessary.

220. On the question of interest rates, intermediaries would be expected to charge market-related interest that would generate reasonable returns, so as to contribute to the growth and sustainability of the credit programme, encourage savings and, in general, foster banking habits.

221. Finally, on the issue of enabling policy environment, Management would build a connection between the programme for micro-enterprises support and the Bank Group's Private Sector Development Strategy by establishing working links between the two types of operations. Policy dialogue would also be maintained with member countries as well as through policy-based operations such that increased attention would be placed on the legal, regulatory and judicial framework to enable micro-enterprises to develop into viable investments which would subsequently integrate into the formal sector.

222. The **REPRESENTATIVE of the UNITED STATES of AMERICA** recalled that a broad consensus had been reached on the principle of supporting micro-enterprises in the Hague but felt that the issue should be approached with caution because of the constraints involved in developing credible micro-enterprises, even under the best of conditions. Her delegation would propose the establishment of a relatively small pilot programme which would channel resources through qualified micro-credit providers for the purpose of on-lending to entrepreneurs. The ceiling for the entire pilot programme should be fixed at US\$20 million; each loan to an NGO being US\$500,000 and requiring the standard government guarantees and each sub-loan to an entrepreneur fixed at US\$1,000. Women concerns and rural areas should be areas of focus. Her country would favour target

operations only in countries with an enabling policy environment and there should be active co-ordination with other donors engaged in this area, such as USAID and other bilateral entities.

223. Selected NGOs must have the capability to manage funds and foster entrepreneurship. The Bank should tie in with an umbrella organization seasoned in micro-credit activities, such as the African Credit Providers Association and should obtain the technical assistance necessary to carry out the pilot programme.

224. Lending should be on a sustainable basis. Intermediaries should charge interest rates that would be positive in real terms. The authorities of her country would support group liability modelled after the Grameen Bank as well as the concept of borrowers as stockholders who would deposit their savings in the institution to expand its lending base. In the long term, her delegation would support policy reforms to make entrepreneurship more viable. Reforms should be legal, regulatory and judicial. Due account should also be taken of fiscal and monetary reforms as well as good governance.

225. Furthermore, all on-lenders should be bound by regular ADF line of credit conditions. Her delegation questioned the size of a pilot scheme which envisioned allocating a major share of the resources, some 77%, to governments for on-lending to private and public financial intermediaries. Her authorities did not support a ceiling of US\$7,000 on sub-loans to entrepreneurs. They also did not support on-lending to DFIs or central banks. They equally were not in favour of a separate provision for technical assistance. They believed that the Fund could lend for institutional strengthening projects and the technical assistance fund could extend grants for assistance related to identification and feasibility studies. The standard of such a programme should be funded out of the administrative budget and there should be a mid-term review of the programme.

226. The **REPRESENTATIVE of JAPAN** pointed out the significance of the social conference on African development held early the previous month under the co-chairmanship of Japan, the United Nations and the Global Coalition for Africa.

227. With regard to the paper under consideration, he observed that his government had some doubts about the structure of the programme. Nevertheless, considering the important role that the private sector could play in the development process, it supported the

programme. Its problem was the ambitious nature of the size of the pilot programme, taking into account Management's expertise and the difficulty in finding and training local intermediaries. He, therefore, proposed a pilot programme on a modest scale.

228. The **REPRESENTATIVE of PORTUGAL** requested that each intermediary must have a solid financial situation. Furthermore, if there was the possibility of not demanding any guarantees from intermediaries selected by the Bank she would propose that the resources be extended into a co-financing scheme.

229. The **REPRESENTATIVE of the UNITED KINGDOM** saw no case for any additional resources, therefore, maintained his previous position. He believed that the focus should be on establishing an enabling environment.

230. The **REPRESENTATIVE of GERMANY** stressed the importance that his country attached to small-scale, local, countryside development of credit and banking systems. From that level, he wondered whether the proposed scheme, with the NGO facet would work.

231. He subscribed to the US delegate's observation that there should be no involvement of central banks and big credit institutions and difficulty in finding appropriate and qualified NGOs to become local credit intermediaries. He, therefore, agreed with her to commence the programme on a small-scale. He also drew attention to the need to develop a local financing system.

232. The **REPRESENTATIVE of CANADA** pointed out that his delegation recognized the important role that micro-enterprises could play in the development of Africa, hence it endorsed Management's initiative. Nevertheless, his delegation would like Management to take into consideration first, the fact that the cost of managing micro-enterprise programmes was disproportionate to the amount of resources channelled through such programmes and the skills required were quite different from those of traditional MDB type of lending. Secondly, there should be a distinction between informal and formal sectors and also between micro-enterprises and small enterprises because the strategies and processes were quite different for the different sub-sectors. Thirdly, the pilot project should be on a smaller scale than the one proposed by Management. In the light of those considerations, his delegation believed that the promotion of micro-enterprises should not be presented as a new initiative but should rather be reworked and integrated into the Bank's private sector development

strategy to become an integral part of a common country programming framework which would be subject to Boards' approval. His delegation would be pleased to share with Management, informally, its experiences on the administration of micro-enterprises.

233. The **REPRESENTATIVE of SWITZERLAND** acknowledged the remarks made by the previous speakers. He welcomed Management's proposals but felt there was still the question of stages and of gaining experience. He, therefore, considered it useful to conduct an analysis of existing situations and practices in several countries and design complete programmes from there. He called for a review of the amounts proposed and proposed US\$500,000 as the maximum limit for a scheme. Management should take into account the type of manpower and expertise required for this kind of operation as well as the cost aspect which was bound to be high for such programmes. The next stage, which should not be the focus at the beginning of such a programme should be the consideration of the involvement of financial intermediaries, the passage from an informal financial sector to a formal one and the function of private banks as well.

234. Finally, Switzerland believed that the type of functions between the micro-enterprise initiative and the Bank Group's Private Sector Unit were different, hence it did not see an easy link between the two.

235. The **REPRESENTATIVE of FRANCE** endorsed the principle of assisting micro-enterprises as an important factor of development in African countries. Like the US delegate, he had strong reservations about the use of national intermediaries for such schemes because of the risks of their dysfunctioning and high structural costs revealed through past experiences, and preferred the use of NGOs. Considering the high administrative costs, the limited expertise as well as the difficulty related to effective supervision for micro-enterprise support, he felt that the issue should be approached with caution, commencing with a pilot programme on a modest scale.

236. The **REPRESENTATIVE of FINLAND** maintained his observations made during the previous consultative meeting. He concurred with all the remarks made by the US delegate apart from the fact that he saw merit in the inclusion of the technical assistance component into such operations on a case by case basis. His Government also would like substantial support to be given to women micro-entrepreneurs.

237. The **REPRESENTATIVE of AUSTRIA** reiterated the importance her country attached to micro-enterprises for development especially in very poor countries.

238. With regard to the document under discussion, she was of the view that it was not convincing in terms of concerns in respect of the selection and supervision of appropriate intermediaries. She also joined those who had expressed doubts about the adequacy in number and requisite expertise of the NGOs, community-based financial institutions and co-operatives mentioned in the document. She also felt that it would be labour intensive for the Fund to supervise intermediaries considering their administrative costs and selection of borrowers. She also expressed concern about the problem of interest rates for on-lending. With regard to NGOs, she believed that they were important for the initial stages of micro-enterprise operations but the developmental stage should go in the direction of credit co-operatives.

239. Concluding, she mentioned that her country would support a small-scale pilot programme to be funded from the general resources, not requiring additional staff despite its belief that micro-enterprise activities should be financed from bilateral assistance. Her country would also like the issue to be rediscussed once some experience had been gained.

240. The **REPRESENTATIVE of BELGIUM** generally endorsed the suggestions made by the United States of America on the choice of the intermediaries and size of the pilot programme.

241. The **REPRESENTATIVE of SAUDI ARABIA**, referring to Management's first approach (paragraph 2.2) to extend ADF loan funds in local currency directly to NGOs without government guarantees on repayment, drew Management's attention to the need to take into account precautions such as the devaluation against depreciation in the value of the local currency; compatibility of local currency with other currencies and transfer of huge repayments in local currency as well as maturities; delay repayment in case of natural disaster or climatic conditions; priority in inputs to be given to micro-enterprises lacking machinery, spare parts or livestock. Referring also to paragraph 2.5 of the document where mention was made that positive interest rates would be charged in order to secure reasonable returns, he felt that such an expectation might not be feasible in countries where interest rates and banking tariffs were fixed by monetary authorities or where inflation rates were high.

242. The **REPRESENTATIVE of NORWAY** supported the rationale for the proposal as his Government considered the issue as a very central element in the poverty reduction strategy and hence a key area within the Fund's activities. He also supported the intervention by Finland to explicitly focus on women concerns. His country was also skeptical to unguaranteed lending and believed that it should be subjected to conditions. Finally, since his government considered the scheme as an integral part of the Fund's activities, it did not see the point of discussing an additional amount to ADF replenishment.

243. The **REPRESENTATIVE of the NETHERLANDS** supported Management's proposal for micro-enterprises as an important element of the poverty reduction activities of the ADF. He also believed that the size of the programme should be significant enough to make an impact and even though the UA 75 million proposed by Management was a bit on the high side, he did not agree to the size proposed by other delegates. He still felt that a number of points needed further clarifications before his country could determine its final position; those included the two credit delivery mechanisms proposed, the notion of market rates, a clear definition of the requirements to be fulfilled by the intermediaries etc. He, however, believed that lending to micro-enterprises should reflect an adequate return for the risk taken by the intermediaries by on-lending to micro-enterprises. He would also not totally exclude central banks because of the uncertainty that NGOs would have the professional expertise required to implement the programme. He wondered whether the target groups were adequately defined so as to prevent unfair competition with the existing formal credit schemes. He was also concerned about the ADB regional offices being sufficiently capable and equipped with adequate skill mix to get involved in micro-enterprises operations. Consequently, the choice of countries which should benefit from such schemes should not be determined solely on the basis of that country being an ADB regional member but more importantly on the receptiveness of a country's policy regime for fostering private sector development.

244. The **REPRESENTATIVE of CHINA**, whilst reiterating his country's support for the Fund to assist in micro-enterprise development, emphasized that a careful selection of the schemes and intermediaries to whom funds would be on-lent was crucial and that the initial success of the pilot programme would be the basis for the future expansion of the programme.

245. The **CHAIRMAN**, summing up the discussions, observed that all Deputies, with the

exception of one, endorsed Management's proposals for micro-enterprise development. Many Deputies gave valuable advice on areas requiring caution as well as considerations to be taken into account in implementing such programmes. Many Deputies called for a careful selection of NGOs and their management capacity as intermediaries. There was a general agreement that lending should not be made through public entities such as DFIs and Central Banks. As regards the UA 75 million proposed by Management for the programme, was a general feeling that it was too high but he believed that a decision on an appropriate amount could best be taken when defining the priority lines and setting out financial and other targets within the framework of ADF-VII but he was pleased that the notion had been accepted. Finally, there were no contradictions but only queries for clarifications.

246. Mr. WOLDU (ADB), reacting to some of the observations made, first, on the non-involvement of public intermediaries in the proposed scheme, pleaded for the Deputies' understanding on the grounds that the unsatisfactory past experiences of public enterprises did not necessarily mean that they would not be good in future. There was the need to strengthen the weaknesses in the area of financial infrastructure, hence, he believed that the rigid dismissal of the public sector should be resisted.

247. As regards the size of the loan, he explained that additional resources might be needed to make an impact in this important area. Management believed that the UA 75 million proposed was much less than what the Inter-American Bank had been committing in the recent past.

248. As regards the question of unguaranteed loans, he explained that Management decided to grant loans of small amounts directly to intermediaries because it believed that the loan repayments would not raise any problems if a close monitoring system was put in place. The approach was a deliberate risk that Management proposed to undertake but it was manageable. It believed that 8% of the total resources could be provided this way without passing through the complexities of government bureaucracy.

249. On the question of interest rates, he explained that in those countries where it was not possible to charge interest rates immediately because of financial distortions, the principle adopted by Management was expected to enable the intermediaries to charge interest rates that would allow them to increase their capital, make profit to expand and sustain their activities and create incentives for mobilizing savings.

250. He also mentioned that a major objective of the proposed initiative would be to provide an on-going explicit link between the WID programme and the proposed one.

251. The **CHAIRMAN**, in his conclusion, mentioned that the basis had been laid to have enough material for guidelines on the subject to be inserted in the donors report. The issue on the size of the facility would be reconsidered during discussions on the level of replenishment and its priorities.

252. On the issue of public entities, he urged Management to reflect on the observations made by the US delegate and supported by all but one delegation and report back to the Deputies during the next meeting.

253. The **REPRESENTATIVE of GERMANY** reiterated his country's interest in supporting the ADB and the ADF to develop their own skills together with suitable small-scale intermediaries in micro-enterprise development but was very skeptical that it would be an easy task. He, therefore, proposed that the amount of the programme should be substantially modest to start with and a scheme for the evaluation of the experiences to be gained should also be clearly designed at the beginning of the operation. Much as his country supported the idea to develop micro-enterprises, the issue should be approached with the utmost caution.

254. The **REPRESENTATIVE of the NETHERLANDS** observed that since they were discussing outlines of a micro-enterprise support programme, they should give guidance to Management on what to or not to include in the programme and on how to structure it and if it was believed to be a good programme, Management should be given the encouragement to start it in a significant manner. If, on the other hand, the programme was judged not to be good because of lack of confidence in it, it should not be carried out. Nevertheless, since all the representatives had endorsed the principle of supporting micro-enterprises, he did not think it would be useful to look for such pretexts as to approach the programme gradually and to design a review system. He advised his colleagues to comply with their recommendations.

255. The **CHAIRMAN**, in a final conclusion, requested Management to reflect on the public/private intermediaries issue as a significant programme to be undertaken, the efforts that Management and staff would have to invest in that programme and on the level of a

viable pilot programme for discussions at the next meeting.

REVIEW OF TECHNICAL ASSISTANCE FUND (TAF) OPERATIONS (ADF-VII/CM.3/93/15) (Agenda item 3.5)

256. Mr. KARIISA (ADB) stated that the short paper submitted attempted to respond to some questions raised at the Hague meeting in respect of the magnitude and effectiveness of TAF resources. It reiterated the principal objectives of the TAF as indicated in the "Guidelines and Procedures for the Utilization of the Technical Assistance Fund", which were "to assist Regional Member Countries (RMCs) in the preparation and implementation of development projects and programmes and to enhance their development capacity and potential". He pointed out that TA itself was an intermediate input since its final projects were still underway. Nevertheless, he asserted that in respect of the various principal objectives of TA, the resources allocated for TAF had been used effectively for the purposes set out for them.

257. He outlined the three principal criteria used in allocating TAF resources : the first was the allocation between project cycle activities and institution support, with the bulk of the resources being allocated for project cycle activities (about 70%). The second criterion, which was in respect of country categories allocated the bulk (80%) of the technical assistance resources to Category A countries because of their institutional weaknesses in project preparation and implementation and here again, the principal objective of the Deputies was realized. The third criterion was in respect of the principal sectors of operation and here also there was consistency between the allocation of TA resources and the main sectors of the Fund's operations.

258. On the question of the level of TA resources under ADF-VII, Management indicated that, in the light of what the TAF resources had already achieved, considering the continuing need for similar activities and in order to incorporate many project quality aspects, such as environmental considerations, WID and Poverty Alleviation etc, which in themselves added some components to the project studies and increased their cost, it felt that there was no basis at this point in time to reduce the share of TAF resources under ADF-VII.

259. The REPRESENTATIVE of the UNITED STATES of AMERICA appreciated Management's review of Fund experiences with Technical Assistance over the past three

replenishments but called on Management to pay special attention to the social sectors under ADF-VII. She reiterated her request to Management to reduce the allocation of technical assistance resources under ADF-VII from 10% to 5% and called for a limitation of technical assistance grants to feasibility studies and project preparation only, with special emphasis on pre-feasibility studies and feasibility studies. She also advocated the restriction of all technical assistance feasibility studies and project preparation to subjects that had not been studied in the past three years, and to a financing ceiling of one million dollars. She further proposed the use of grants for the project cycle, particularly at its beginning since grant resources allowed the Fund to change course more easily when difficulties were encountered. Her delegation, however, did not support technical assistance grants for project implementation and institution building and believed that such operations should naturally belong to the project loans themselves. Finally, the US would like to limit TAF resources to only the poorest Category A countries or to multinational studies which involved Category A countries.

260. The **REPRESENTATIVE of FRANCE** supported the proposal made by the United States to reduce the allocation of TA resources under ADF-VII from 10% to 5% on the basis of his delegation's dissatisfaction with the results of TA operations for the period under review.

261. The **REPRESENTATIVE of SWITZERLAND** observed that it was generally difficult to evaluate the quality and the performance of technical assistance components but, in view of their importance for the Bank's future, Management should have provided more information on the achievements made through the different types of TA studies and activities over the past few years. He, therefore, believed that Management should make an effort to integrate TA strategies into country strategies and felt that the importance and the sensitivity of the issue had not yet been reflected in the discussions held so far.

262. On the question of what the best method of financing studies should be, he agreed with the US position, in the sense that flexibility and probably some grant element might also be needed. With respect to creating institutional capacity, contingent recovery mechanisms or other loan mechanisms should be considered alongside project implementation as an integral part of project activity. Therefore, in terms of the financing mode he felt that the incentives given by the different modes of financing should be considered in conjunction with their effects on institution building and not just assume that those activities should be

financed by grant resources.

263. Finally, he hoped that the Task Force on Project Quality could make a significant impact on technical assistance operations and that its report could be discussed in this forum.

264. The **REPRESENTATIVE of BELGIUM** subscribed to the observations made by the French and American Deputies, particularly regarding the reduction of the allocation of the technical assistance resources under ADF-VII from 10% to 5%. He also believed that the idea of a contingent recovery mechanism proposed by the Swiss delegate was an excellent one which should be maintained.

265. The **REPRESENTATIVE of KUWAIT**, based on the Kuwait Fund's long term experience in this field, observed that TA was an important aspect of development which went hand in hand with loans granted to countries; therefore, he was in favour of maintaining the TAF at the level of 10% as agreed under ADF-VI. Nevertheless, he agreed with the American delegate that more emphasis should be given to the social sectors for education and health purposes.

266. The **REPRESENTATIVE of AUSTRIA** stressed the importance of technical assistance, particularly in the new areas of Fund activities and on that basis supported the maintenance of 10% of TAF resources under ADF-VII. She, however, believed that the distribution of technical assistance resources should reflect the lending priorities of the Fund and in that regard she was dissatisfied with the results achieved under ADF-V and ADF-VI. She, therefore, urged Management to focus its activities on the agricultural sector. She also wanted Management to look into the high slippage rate with regard to the Fund's Work Programme.

267. The **REPRESENTATIVE of SAUDI ARABIA** supported the 10% allocation for the Technical Assistance Fund. Referring to Annex 1 of the document, he felt that more details were required on project cycle components such as training and consultancy services in order to reflect the effectiveness of project cycle in the enhancement of RMCs ability to handle project activities.

268. The **REPRESENTATIVE of ITALY** expressed concern about the effective use of technical assistance resources and recommended a possible reduction of TA resources from

10% to 5% during the general reconsideration of the replenishment target. Furthermore, technical assistance resources which would be available after the reduction should be utilized only for studies directly related to the project cycle and not for institutional support. He also wanted technical assistance to be restricted only to Category A countries.

269. The **REPRESENTATIVE of GERMANY** was also of the view that the 10% share of technical assistance resources be maintained under ADF-VII replenishment in the light of the Fund's overriding goal to improve project quality. He, however, had some sympathy for the contingent recovery mechanism but felt that it might not be feasible for many African countries in view of the amount of basic work required, which might include institution building, prior to project implementation.

270. The **REPRESENTATIVE of the UNITED KINGDOM** was of the view that the TAF had had a valuable function and would like to see the 10% share maintained.

271. The **REPRESENTATIVE of PORTUGAL** reiterated her support for the maintenance of the 10% share of TAF resources as proposed by Management.

272. The **REPRESENTATIVE of CANADA** requested Management to provide an evaluation of the TAF operations at the next meeting to enable his country take a position on the appropriate level of TAF and also to ensure the increased effectiveness of the TAF. Canada also supported the Fund's renewed action towards incorporating directly environmental studies, poverty alleviation, WID elements and popular participation into project designs and country programming activities. He also wanted the Fund to achieve increased co-operation. Finally, he supported his Kuwaiti colleague in suggesting a closer link between TAF disbursements and subsequent project payments.

273. The **REPRESENTATIVE of SWEDEN** joined his colleagues who considered technical assistance as a key element for the success of the Fund's operations, but expressed concern about the excessive reliance on bilateral donors funding for very important studies and stressed the need to finance environmental studies from the Fund's resources and not from external bilateral funding, since they were an integral part of the project cycle. Sweden, recognizing the implementation of Agenda 21, believed that technical assistance should receive adequate resources, hence the level of 10% should be maintained.

274. The **REPRESENTATIVE of CHINA** joined his colleagues who emphasized the importance of technical assistance for the success of projects. He believed that Management's proposal for maintaining the 10% share was justified, in the light of the increased variety of Fund activities, namely, Agenda 21, environmental studies, WID and poverty alleviation elements and their incremental costs. For this reason, he supported the maintenance of the 10% share.

275. The **REPRESENTATIVE of FINLAND** joined his colleagues who emphasized the difference between TAF operations and the report of the Task Force on Project Quality, since technical assistance was closely linked to impact and quality issues. He called on the Bank Group to assume full responsibility for the variety of areas mentioned by the Swiss Deputy which in the past relied on external support.

276. He was also of the view that regional members should take increased responsibility in the preparation of country environmental and poverty profiles, with some support from DFIs, bilateral donors and the Bank Group, in line with practices adopted for the preparation of National Environmental Action Plans (NEAP) and UNDP's Long-Term Perspective Studies. He explained that such an approach might lose some of the technical quality but gain real governmental commitment as well as cost savings.

277. Finally, he was looking forward to proposals from Management on issues regarding the responsibility between the Bank Group and Governments in different areas of technical assistance operations and the cost-sharing issue, outlining the operations to be financed by grants and those to be funded on reimbursable basis.

278. The **REPRESENTATIVE of SPAIN** supported the maintenance of 10% share for TAF operations.

279. The **CHAIRMAN**, summing up the discussions, recalled that the Deputies had raised questions regarding the scope of technical assistance, whether it should be strictly confined to project preparation or should also play a role in project implementation and institution building. Questions were raised on the decision to utilize grants or operate on a reimbursable basis. It was pointed out that there would be more scope for technical assistance if the implementation of Agenda 21, environmental, poverty alleviation and WID issues were taken into account. Some Deputies also raised questions on the recovery system.

Others also requested an in-depth evaluation of what was actually achieved by TAF so far in order to have a better view of its impact. Finally, there was the majority view to maintain the 10% level of TAF resources although there were explicit views that a lower percentage was also feasible.

280. Mr. KARIISA (ADB) thanked the Deputies for their very useful comments on a number of issues and admitted that Management's evaluation was not complete in the sense that a number of issues were not incorporated since it was to respond to a very specific need. A more comprehensive evaluation would be undertaken subsequently.

281. As regards the financing terms of the TAF, he recalled the lessons learnt from ADF-IV and prior systems under the loan terms of the Technical Assistance Account (TAA) and the resultant switch to grant financing. He pointed out that the bulk of TAF still stressed the focus on Category A countries where capacity was weak for project preparation as well as project management. The lack of data due to the non-completion of projects, made it impossible to identify clearly the impact of technical assistance on projects. Technical assistance was, therefore, a support to the general quality of projects particularly for Category A countries.

282. The institution support activities which increased under ADF-VI still had a lot of room looking at the type of institutional support involved and maybe on country classification. He explained that assistance in the preparation of national environmental action plans (NEAP) was considered as an institutional support activity and not as a project cycle activity and Management believed that such activities should be undertaken to enable those institutionally-weak countries to elaborate their development plans that took into account environmental concerns. Institutional support activities, therefore, laid the foundation for further development and project generation in a more healthy environment.

283. Management had taken note of the fact that there was discrepancy between the sectors of priority and the sectors that TAF had supported and would ensure that in future replenishments, the sectoral allocation of TA resources would reflect the Fund's main operational priorities by committing appropriate resources to the agricultural and social sectors.

284. On the question of contingent recovery, which might be the equivalent of the World Bank's PPF, Management would have to study it but the past experience was not encouraging.

285. As regards South-South co-operation, efforts were being made to ensure that most of the studies were undertaken within the region and as much as possible by its nationals. Management would at a future date provide data to show the success made in this area.

286. Management believed that the proposal to limit the cost to one million dollars would be difficult to sustain because the tendency was rather for an increase. The components involved were increasing and since there was shortage of expertise on such issues, fees were also high. Management would be pleased to receive some underlying work on the calculation of this figure for consideration.

287. The **CHAIRMAN**, in his conclusion, requested Management to provide, for the subsequent meeting, additional information on the type of operations being funded from the TAF. It should also revisit the question of contingent recovery. An evaluation of the impact of the TAF should also be undertaken to enable Deputies take a final decision on the scope and volume of TAF that would be reasonable and feasible under ADF-VII.

The meeting was adjourned at 7.05 p.m.

PROVISIONAL SUMMARY RECORDS OF THE SECOND SITTING
held at the Conference Hall of Hotel Pullman Silmande, in Ouagadougou,
Burkina Faso on Wednesday, 10 November 1993 at 10.40 a.m.

- CHAIRMAN** : **Mr. Ruud Y 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** : **Consideration of Substantive Papers (continued)**
- **ADF-VII Replenishment Scenarios (Agenda item 3.6)**
 - **Draft Report on the Consultative Meetings on the Seventh General Replenishment of the Resources of the African Development Fund (Agenda item 3.7)**
 - **Draft Resolution concerning the Seventh General Replenishment of the Resources of the Fund (Agenda item 3.8)**
 - **Any Other Business (Agenda item 4)**
 - **Date and Venue of Next Meeting (Agenda item 5)**

OPENING OF THE MEETING

288. The **CHAIRMAN** stated that representatives had been honoured by an audience with his Excellency, President **Blaise Compaore**, Head of State of Burkina Faso. The President stressed the importance of North/South solidarity and the important role the Bank Group was playing in that respect. He further mentioned that he and his fellow African leaders were committed to the development of their countries and the African continent. He conveyed his heartfelt greetings to all the delegates and was happy to receive them. In response, the President of the Bank, on behalf of all the delegates, expressed his gratitude to the Head of State for the reception and hospitality accorded to the delegates in Ouagadougou.

ADF-VII REPLENISHMENT SCENARIOS (ADF-VII/CM.3/93/18) (Agenda item 3.6)

289. Mr. **RWEGASIRA** (ADB), in his introduction, defined the vision that guided Management's paper. He stated that the vision reflected three main elements; first, it reflected the broad international consensus that had been emerging within the Bank Group, the Bretton Woods Institutions and the United Nations that substantial resource needs mainly concessional resources, were required to reverse the per capita income decline that Africa had experienced over the last decade and a half and that those requisite resources were seen within serious national politico-economic reforms and a renewed spirit of international co-operation and solidarity.

290. The second element was the institutional specificity of the ADB Group which focused on the critical needs of Africa in shaping a medium term development policy and operational agenda for both the ADF and the ADB. This vision was taken up in an engaging dialogue among Management, the Board of Directors and the Board of Governors in the context of the Bank Group's Five-Year Operational Programme 1992-1996 (FYOP.3).

291. The third element was the specific role of ADF-VII as the continuation of ADF-VI policies and programmes and also as a response to changing the circumstances in the 1990s requiring deeper and innovative policies as well as significantly contributing to meeting the rising resource needs of the poorer countries in the region.

292. The paper itself did not provide any fresh perspectives or initiatives beyond those already indicated since the beginning of the consultative meetings but simply attempted to

assist Deputies to retrace their steps in appreciating Management's proposals about the role of ADF in the mid-1990s. Management had earlier indicated the figure of FUA 2.82 billion as the technical starting point of a zero real increase in ADF-VII. Given the Dakar understanding on the role of the Bank Group on resource transfers to Africa, the socio-economic circumstances prevailing in the continent as well as the rich dialogue held among Deputies so far, Management hoped that every effort would be made to substantially enhance the role of the Fund in concessional resource transfers to Africa.

293. The **REPRESENTATIVE of the NETHERLANDS** commended Management for its responsiveness and recognition of the urgency of the concerns expressed by Deputies as well as on the fruitful dialogue held between Management and donors. He urged his colleagues to go beyond the key words of efficiency and quality, vital though they were, to give clear and concrete indications of their target volume for ADF-VII. Whilst being cognizant of the budgetary constraints of State Participants, he urged his colleagues to accord special sympathy to Africa's predicament since it was the region most in need of concessional resources. He, therefore, hoped that it would be possible to replenish the Fund at a level beyond a real maintenance of value. Such a level would not only enhance the Fund's capacity to respond to its policy priorities but also the credibility of State Participants.

294. He also drew attention to the Deputies' request to Management on the environmental issue and proposed that in line with the Rio objectives, regional Banks and Funds be used to play an increased and more effective role in providing resources on concessional or other favourable terms for the implementation of Agenda 21; failure to do so might cost them more later. In conclusion, he reiterated the need to provide a substantial replenishment for the Fund to enable a sizeable part of it to be used for environmental activities.

295. The **REPRESENTATIVE of the UNITED STATES of AMERICA** sympathized with Management's desire to discuss the ADF-VII funding level but believed that it was somewhat premature to indicate actual figures. Her delegation questioned the programmatic basis for proposing a large real increase under ADF-VII with the belief that some proposed new areas for Fund operations might not be advisable in the context of Management's comparative advantages. It indicated its preference for a modest scale pilot programme for micro-enterprise development on the order of around US\$ 20 million. That should be more effective in size to the capacity of the micro-credit intermediaries, including qualified NGOs. It also disagreed with the Netherlands Deputy on the need for a separate window for the

environment and believed that environmental studies should be financed from the TAF particularly if the allocation remained at 10% of the replenishment which was still of concern to her country. The 22.5% allocation for PBL was believed to be sufficiently large to service the kind of Fifth Dimension debt assistance being considered for the poorest adjusting countries.

296. Her delegation also believed that a provision for a 1-1 1/2% for a real growth of Africa which implicitly assumed full utilization by all recipient countries was not a realistic assumption. The US advocated a strong country risk policy in the Bank and was opposed to ADB lending to Category A countries even though it sympathized with Management that the effects of the reduced ADB lending to Category A countries could be problematic. It was worth noting that about a half of IDA's resources to which the US committed itself substantially last year went to Africa and even its own budgetary realities were constraining the delivery of that commitment.

297. The very difficult choice facing her country in cutting on budgetary expenditures was equally facing a number of debt-distressed countries that made up the Fund's beneficiaries. Nominal increases in the country's past contributions to Fund replenishment exercises were simply not sustainable. Budgetary pressures could severally constrain the US and other countries' flexibility on the issue of funding for ADF-VII but that should not be misconstrued in any way as a diminution of the country's commitment to the region and to the Fund's central mission of poverty alleviation. The US had indicated in several fora that it was strongly committed to Africa and its people. Her country would channel resources to Africa through the most effective medium available to it and to that effect it would insist on strong performance criteria on the basis of which her delegation could convince its Congress that that was an area to which it should devote the increasingly scarce international resources.

298. The **REPRESENTATIVE of JAPAN** shared the views expressed by the USA on the level of ADF-VII replenishment. He believed that to discuss the level of the replenishment, information on the burden sharing was necessary and, therefore, hoped that the proposal on the burden-sharing would be made available as soon as possible. He also observed that to discuss replenishment scenarios, there was a need to take into account not only the financial needs of borrowing countries but also the difficult financial situation of donor countries as well as the absorptive capacity of borrowing countries.

299. He also shared the view of the USA on the proposal regarding the African Environmental Project Preparation Facility. Finally, he believed that the level of ADF-VII should be realistic, and in line with the recent replenishments of IDA and the Asian Development Fund which were concluded at a level of a zero real increase.

300. The **REPRESENTATIVE** of the **NETHERLANDS**, rectifying an impression created that he called for a separate window for environmental issues, he mentioned that even though his country was still in favour of that window, he did not address that issue this time but only called for additional resources for adequate replenishment which could enable the Fund to set aside enough resources to implement environmental policies.

301. The **REPRESENTATIVE** of **KOREA** believed that the serious economic difficulties facing Africa called for increased concessional resources to alleviate poverty on the continent and to strengthen the role of the Fund as the main channel of regional development aid. Nevertheless, he felt that the level of the replenishment should take into account the future role of the ADF, the financial soundness of the Bank and the budgetary conditions of donor countries.

302. He stressed that the current economic difficulties facing his country, which had called for a tightening of its policies and limited its contribution to international financing institutions, would make it difficult for it to maintain its current contribution ratio to ADF-VII. Korea, therefore, would favour a zero real increase scenario.

303. The **REPRESENTATIVE** of the **UNITED KINGDOM**, after explaining the austerity measures introduced into his country's aid programme as a result of domestic budgetary constraints, observed that it might not be possible for his country to maintain its share in the ADF-VI and might probably even have to reduce it quite substantially. As regards the Fund's performance, he felt that it had devoted too many energies in trying to launch new initiatives rather than concentrating on the core of implementing the unfinished work in the ADF-VI policy agenda. Whilst recognizing the considerable needs for concessional resources for Africa, he felt that the Fund was only one channel of delivering those resources to Africa and referred to IDA as an extremely effective channel.

304. However, for the ADF to merit a significant increase, it would have to demonstrate its capacity to implement more effectively the requirements agreed upon under ADF-VI but

considering the prevailing domestic economic difficulties, he questioned the feasibility of the zero real growth outcome.

305. The **REPRESENTATIVE of ITALY** observed that he was not in a position to decide on the proposed scenarios for the time being because they were not in line with the ADF needs. Considering the consensus that emerged that ADF efforts should be concentrated on Category A countries, particularly on poverty alleviation, he wondered whether there was need to establish separate windows for PBL and project quality aspects such as debt alleviation, technical assistance, environmental issues etc. He, therefore, proposed that Management should provide more realistic scenarios without those separate windows and the Fund should also concentrate on the core needs which would be useful to Africa. In that light, he felt that the views expressed by the UK delegate were in line with the negotiating climate. Finally, he proposed a considerable reduction in the proposed scenarios since the ADF-VI programme was not fully implemented.

306 The **CHAIRMAN** drew the Deputies attention to the usual approach adopted during replenishment negotiations whereby donors identified important activities in the context of the Fund and developed programmatic guidelines for them to enable them monitor the flow of financial resources in connection with their policy priorities. He, therefore, believed that their proposal to get rid of all the programmatic policy guidelines approach might create a problem in tracking down the allocation process in terms of performance related approach. He would, therefore, like to be guided on how the general resources were combined and broken down into priority needs. As regards Management's argument for additional resources to fund new priority needs, he did not think it would be fair to blame Management for such an argument because it was merely executing their request. It was, therefore, within the purview of donors to provide clear policy directives for the Fund's management.

307. The **REPRESENTATIVE of FRANCE** observed that his country's contribution to ADF was one of the components of a special support provided on a regular basis to Africa, from the bilateral and multilateral viewpoints. The amount of ADF replenishment should be, as usual, considered as a compromise, the needs being more substantial than the limited financial resources. He believed that maintaining the real value of ADF-VI during the ADF-VII period should be considered as a good objective and not just as a reference figure. He did not fully agree with Management that the maintenance of the real value of UA 2.6 billion was a reference figure to which new entities should be added; these entities (poverty

alleviation, WID, environment etc) being an integral part of the Fund's normal activities and not new activities for ADF-VII.

308. He explained that the replenishment exercise should be considered as a contract, comprising, partly money and partly operational and institutional commitment, to be signed between State Participants and the Bank Group's Management. He stressed that his country's contribution to ADF-VII would depend on its assessment of the general solidity of the contract. Even though he was satisfied with some progress made in this respect, he felt that there was still a need to put in place a country risk policy excluding, as one element, Category A countries from the ADB window, to improve budget control and put in place the cost sharing formula between the Bank and the Fund. Finally, efficiency should be paramount in their multilateral co-operation.

309. The **REPRESENTATIVE of GERMANY** shared the UK delegate's position in the light of his country's present difficult financial situation. He further indicated that the severe budgetary and financial constraints facing his country, as a result of its support to the recent changes in Europe and obviously the world-wide recession, had increased the awareness of his country to the question of effectiveness and the World Bank's Wapenhans Report, the IDB's Tapoma and the on-going exercise in the AsDB and the ADB Group were being closely monitored to see the outcome. He believed that the ADB Group should show proof of its effectiveness to enable it secure its share of possible support. Finally, he reiterated his call for enhanced performance.

310. The **REPRESENTATIVE of SWITZERLAND** pledged his country's commitment to Africa and the ADF as its most important regional institution. Like his previous colleagues, his country's flexibility was also severely constrained by budgetary limitations and that created a situation of competing demands under which, in the context of the ADF replenishment, a strong case should be built, presenting all the key elements which showed the effectiveness of the Bank and the Fund, the Fund's programming process, its capacity to evaluate country performance efficiently, a systematic project review, global financial policies and continued effort to improve administrative processes and to rationalize management. The Project Quality Task Force report should also be an important element in building a strong case for ADF support and global figures should be indicated for all the elements presented. Furthermore, to reasonably present and defend commitments, there was a need to establish clear links between the ADB and the ADF and the global policies

affecting the Institution, drawing inspiration from the discussions on these global issues to be held by the ADB/ADF Consultative Committee of Governors.

311. He also felt that the Bank's initiative in considering present portfolios and the possibilities for the cancellation of funds for projects having difficulties in reaching their objectives could also be an important element in looking at and facilitating the replenishment exercise and providing traditional financing as well. Co-ordination between the various agencies working in Africa should also be emphasized in their future discussions, since it could influence the allocation criteria.

312. Management's presentation with the additional windows was helpful in identifying specific needs but in future, it should be considered more as possible orientations as well as an exercise of weighing the different priorities in a global scheme and not as additional resources.

313. The **REPRESENTATIVE of NORWAY** pledged his country's readiness to negotiate for a substantial replenishment based on its traditionally strong commitment to the ADB Group. Furthermore, he stressed that Africa would continue to represent the main geographical focus of his country's development assistance. He observed that a substantial ADF-VII replenishment would represent a clear vote of confidence in the ADB Group and to support that there should be a total trust that the institution was on the right track and continued to deserve the status of a privileged channel for development assistance to Africa, among a number of competing channels.

314. Norway's unprecedented budgetary pressures had impacted heavily on its development co-operation budget, increasing competition between channels for aid resources. Therefore, in order for his country to give a clear indication of the level of ADF-VII and to fulfill the quality prescriptions required, there was a need to improve dialogue between regional and non-regional partners and between donors and Management and in a forum such as the Consultative Committee of Governors, particularly on issues relating to the Bank Group's financial position and other well-known fundamental issues.

315. As regards the methodology and approach adopted by the Bank to ascertain the replenishment requirement, he agreed with his colleagues who expressed doubts as to the approach of establishing a kind of foundation which could be represented by replenishment

in real terms and add on price tags related to different initiatives and activities. He recommended that the Fund be approached with scrutiny and discussion of the kind of priorities to be set for the total resources and decide upon the allocation of funds for those priorities when the replenishment would become obvious.

316. The **REPRESENTATIVE of CANADA** stated that his country was not presently able to comment on the desired level of ADF-VII replenishment because it was not yet in a position to indicate its proposed level of participation. Furthermore, in order to determine its participation in ADF-VII replenishment, it would have to agree on issues related to the strengthening of the Bank Group's financial situation as well as on its development effectiveness.

317. He shared the views of his Norwegian and Swiss colleagues on the importance of reinforcing dialogue between regional and non-regional partners and on the Consultative Committee of Governors. His country also believed that the ADF-VII's objectives should be to increase the Fund's effectiveness and to integrate development priorities such as poverty alleviation, WID, environment etc., into the Fund's main programming at no additional cost. Canada did not support the establishment of a Special Project Preparation Facility to assist the ADF in integrating environmental issues into regular operations. It also believed that Executive Directors should be provided with appropriate environmental documentation on projects well ahead of Board dates.

318. The ADF should also build on its experience of most of the areas identified from the international community, particularly from the OECD guidelines on environmental assessment. He was surprised that there was no specific mention of desertification issues in the document, even though desertification was one of the most pressing issues facing African countries and therefore, proposed that a desertification combating programme be a priority for ADF. He emphasized that his country was not advocating a new initiative that would require additional funding but was simply suggesting that planned programming reflected the importance of the issue.

319. Finally, as regards the issue of burden-sharing, he observed that Canada had always been an extremely generous contributor to the Fund and hoped that the share of other ADF contributors might better reflect their economic capacities to share the burden.

320. The **REPRESENTATIVE of AUSTRIA**, like some other speakers, stated that the consideration of the volume for ADF-VII replenishment should take into account the need for the Fund to be provided with adequate resources to enable it continue its operations as well as the current budgetary constraints of donor countries. She pointed out that her country was also faced with the difficult choice of cutting on budgetary expenditures. Furthermore, in addition to the world-wide recession, there was an enormous need for financial and technical assistance in the former centrally planned economies.

321. Notwithstanding her country's domestic problems, it intended to continue to contribute a fair share to the development of the poor African countries as it had always done in the past, particularly for five out of the eight African countries benefitting from priority bilateral aid from Austria. In addition, Austria's non-governmental aid was largely directed to Africa even though it had been presently reduced by the civil war-stricken countries in her neighbourhood. Her country would, therefore, maintain its share of ADF-VII replenishment and expected that Fund activities under this replenishment would be directed to priority areas identified under ADF-VI some of whose targets had not been met. Poverty alleviation and the environment should continue to be areas of focus and relevant activities should be accommodated in the general operations programme. In order to ensure that the scarce Fund resources would be channelled to the poorest Category A countries, she reiterated that she could not support the change in the categorization mechanism. Finally, she believed that it would be premature to indicate specific figures for the volume since some important issues were awaiting decisions but she hoped that all donors would contribute a fair share in the Seventh Replenishment so that a satisfactory level would be reached.

322. The **REPRESENTATIVE of PORTUGAL** also pointed out that her country's internal budgetary constraints would not make it possible to go beyond a zero real increase over ADF-VI but the commitment to the Bank itself was being maintained. That should not lead to a questioning of Portugal's commitment since most of its co-operation resources were still directed to Africa. She hoped that from the discussions, a consensus would emerge on the best way to utilize the available resources.

323. The **REPRESENTATIVE of SWEDEN** echoed the views of the Norwegian and Swiss delegates particularly with regard to his country's strong commitment to Africa and the Bank Group over the decades, the need for building a good case for his country's share in the ADF-VII replenishment and the importance attached to the Consultative process. In

addition, he indicated a budget cut in the Swedish aid last year which was the first time in decade.

324. The **REPRESENTATIVE of BELGIUM** shared the views expressed by the French Deputy on the various scenarios and pointed out that his country's contribution would depend on its budgetary situation which was unfortunately currently unfavourable in view of a decline in per capita GNP and a deterioration in the value of the Belgian Franc vis-à-vis the Unit of Account. Consequently, despite his country's goodwill to support the Fund, it might not be able to exceed in nominal terms its contribution to the previous replenishment. Furthermore, any gap in the volume might compel his country to reduce its relative share.

325. The **REPRESENTATIVE of KUWAIT** urged his colleagues to decide, at least, on a base figure to focus on to enable them discuss ADF-VII programmes at their next meeting.

326. Utilizing the process of elimination with regard to the five proposed scenarios, taking into account the financial and budgetary constraints of donors as well as the major concerns for which the majority of Deputies had expressed support namely, restricting Fund lending to Category A countries, assisting the poorest countries to be able to attain minimum per capita income growth and development as well as providing them with resources as concessional as possible, he assessed that a replenishment level of 3.14 billion was a logical and more realistic level for ADF-VII.

327. The **CHAIRMAN**, summing up the discussions, observed that some Deputies mentioned that they were not able to indicate figures for the replenishment because of their countries' budgetary procedures and others felt there was still some pertinent work to be done by Management. He felt that donors should be specific in their requests to Management to enable it give them full satisfaction. As regards some Deputies' reference to the report of the Task Force on Project Quality, he noted its importance but underlined that it might not be available before March 1994. It was worth noting that the effective date of the ADF Programme was 1 January 1994, hence if Deputies could not reach agreement on a replenishment figure soon, there might be the risk of disrupting the operational capability of the Fund.

328. He also noted that several delegates stressed the importance of dialogue at various levels and felt that it was worth pursuing the dialogue already established with Management

so as to firm up the confidence needed for the replenishment. The importance of the Consultative Committee of Governors as a forum for dialogue between regional and non-regional partners on the Bank Group's substantive issues was also stressed by some Deputies and he would like to see a strengthening of that dialogue. He further indicated that it was the responsibility of Deputies to shape up solid policy guidelines for Management to implement.

329. As regards the replenishment level, some Deputies gave clear indications ranging from a nominal maintenance of ADF-VI value to a substantial replenishment going beyond the maintenance of the real value and the last speaker reasoned on a level of FUA 3.14 billion; a level for reflection for the next meeting.

330. He further pointed out that several interventions mentioned that poverty alleviation, WID, environmental considerations etc, should be regarded as an integral part of the Fund's regular programme. Others tabled their priorities to the ADF-VII priorities. Others also agreed to continue to implement the ADF-VI programme during the ADF-VII period whilst some also added on new elements. He called on Deputies to be cautious in order not to overburden the Institution. A good and manageable programme for ADF-VII should, therefore, be worked out.

331. Finally, for the next meeting, he proposed to Deputies to make efforts to rearrange the financial elements in the present document together with indications on other priority issues, taking into account the programmatic basis in the context of a potential ADF-VII replenishment level.

332. He invited Management to distribute the details prepared on previous burden-sharing ratios requested by Deputies for their consideration.

333. Mr. RWE GASIRA (ADB) thanked the Deputies for their rich discussions which situated the role of the ADF. Management would submit for the next meeting proposals within the range of FUA 2.82 to 3.14 billion indicated by Deputies together with other requirements indicated.

334. Responding to the comment made by the US delegate on the target growth rate of 1 to 1.5% for Africa, he stated that such a rate was half of the UN target set for Africa in

the current agenda for the 1990s. He drew attention to the growth rates in the developing world namely, Asia, Latin America and adjusting Africa. First, the Asian growth rate "miracle" referred to by the Deputy for Japan was realized, according to a publication issued in the context of the ADF meetings, by means of adequate financing from a mixture of policies, public and private partnerships, as well as high level investment in both physical and human capital. The recession in Latin America's debt crisis favoured a decline in the export risk ratio as well as an upward trend in private flows and per capita income. Growth rates therefore followed an upward trend.

335. As regards adjusting Africa, its economic performance showed that the growth rate of 1-1.5% was underestimated. Evidence from some of its poor countries such as Uganda and Chad, indicated that the 1-1.5% rate could be exceeded. Management was, therefore, of the view that, in the medium term, Africa's major predicament to higher growth rates was a financial constraint. If African countries, first of all, enhanced their domestic resource mobilization methods and the donor community also provided adequate concessional and non-concessional resources, where feasible, to Africa, to keep on encouraging the growing economies to invest in physical and human resources, and given the political and economic reforms as well as other efforts being undertaken in Africa, it would be possible to accelerate the economic growth rate well beyond the 1-1.5% quoted. In the absence of adequate financing, there was every danger that the African continent would continue lagging behind Asia and Latin America.

336. The **REPRESENTATIVE** of the **UNITED KINGDOM** believed that FUA 2.6 to 2.8 billion would be a more realistic range, in view of the thrust of the comments made at that meeting but if Management wanted to table FUA 3.14 billion for the time being, he would have no difficulty with that.

DRAFT REPORT ON THE CONSULTATIVE MEETINGS ON THE SEVENTH GENERAL REPLENISHMENT OF THE RESOURCES OF THE AFRICAN DEVELOPMENT FUND (ADF-VII/CM.3/93/19) (Agenda item 3.7)

DRAFT RESOLUTION CONCERNING THE SEVENTH GENERAL REPLENISHMENT OF THE RESOURCES OF THE FUND (ADF-VII/CM.3/93/20) (Agenda item 3.8)

337. The **CHAIRMAN** commended Management for recapitulating the state of affairs of their negotiations in a draft report, requested by donors at the end of their second meeting in the Hague. Since many of the items had already been discussed, he proposed that Management should highlight elements of the report which incurred changes to enable Deputies to comment on them and on the structure, paying attention to areas where linkages with subjects were apparent, such as the eligibility criteria and resource allocation. After the meeting, written comments from Deputies should be forwarded to the Bank's General Secretariat.

338. Mr. **RWEGASIRA** (ADB), introducing the Draft Report on the Consultative Meetings, stated that it aimed at facilitating the work of the Deputies by summarizing the conclusions and decisions arrived at during the two previous meetings. The format of the report was quite similar to that of the ADF-VI and it tried to capture new elements of ADF-VII. There were a few cases where written comments meant to be consensus contributions in some areas were incorporated. He pointed out that the areas requiring decisions as well as directives were set out in the form of square brackets.

339. Mr. **EL OBEID** (ADB), introducing the ADF-VII Draft Resolution, stated that it was based substantially on the text of the ADF-VI Resolution. He recalled that at the conclusion of the ADF-VI Consultative Meetings, numerous amendments were introduced to the replenishment implementation arrangements, the key ones being the provisions dealing with the subscriptions and payment and the commitment authority of the Fund. It was also agreed that an improved trigger formula be put in place.

340. The ADF-VII Resolution took stock of the arrangements that were agreed for ADF-VI as well as the experience gained in implementing the ADF-VI Resolution. Certain adjustments were proposed as reflected in the text of the draft ADF-VII Resolution and the

last part of the report of Deputies. Those amendments fell into three broad categories, of which the first is the effectiveness trigger and the advance subscription trigger. In this regard, he pointed out that, in view of the difficulties encountered in the implementation of the ADF-VI Resolution as a result of delays in the deposit of subscription instruments, and in order not to hamper the Fund's operations and attainment of the replenishment objectives, it was considered advisable to reduce the effectiveness trigger to 30%, as opposed to 40% under ADF-VI, and to lower the level of the advance subscriptions trigger to 15% instead of 20%.

341. The second category of amendments related to the subscription and payment. Here again, difficulties encountered by Management in getting certain State Participants to convert their subscription monies into other currency holdings of the Fund, to some extent, affected the Fund's financial position. In addition, the Fund's financial position was also adversely affected by subscriptions in depreciating currencies. To remedy such a situation, Management believed that, in line with the IDA-10 arrangement, State Participants subscribing in their national currencies should agree to maintain the convertibility of their subscription monies, and that State Participants intending to make subscriptions in currencies that had depreciated against the SDR by more than 20% during the period 1991-1993 should denominate their subscriptions in SDR. It was also being proposed that an arrangement be put in place to ensure the uniformity of payment modalities in respect of qualified and unqualified subscriptions.

342. The third principal amendment concerned the Fund's Commitment Authority. The rather low commitment coverage ratio observed during the ADF-VI period resulted in operational inconveniences to the Fund, delays in the implementation of approved projects and increased costs to beneficiary regional members. To redress this situation, Management proposed a new scheme under which the first commitment tranche would be increased to 50%, as opposed to one-third of the amount of total subscriptions and the second and third tranches would be reduced to 30% and 20% respectively.

344. The CHAIRMAN pointed out that the donors report was of a dynamic nature and could not therefore incorporate progress made during this present meeting but assured them that that would be reflected for the subsequent meeting. He solicited Deputies' views on the mainframe of the Report, on elements they might wish to highlight as well as on the new elements added on the financial methods.

345. The **REPRESENTATIVE of CANADA** commended Management for the efforts made in preparing the Draft Report and agreed with the Chairman's proposal to Deputies to provide Management with written comments on the Draft Report.

346. As regards the Draft Resolution, his delegation would not be in a position to provide technical comments at this stage because of the relatively short time it had to review the document but it would do so in writing at a later stage. Furthermore, his delegation would also like to see incorporated into the Draft Resolution, a general statement on ADF-VII reflecting the issues that had been discussed as well as its policy and operational objectives. It also requested Management to propose options to protect the Fund and/or compel all State Participants to honour their commitments so as to avoid planning and cash flow problems for the Fund and to ensure that the agreed burden-sharing was respected.

347. The **REPRESENTATIVE of the UNITED STATES of AMERICA** would submit her written comments on the Draft Report to Management but would also like to highlight a number of points. She pointed out that the issues of good governance and military expenditures were not mentioned in the Report but they should be included, and promised to provide language that basically reflected what was agreed to for IDA-10 on those issues. Her delegation would like a point to be inserted in the Draft Report on the timing for the availability of environmental impact assessments. It also called for a good information policy for the Bank Group in line with that of the World Bank and would provide Management with language to that effect. The Bank's own internal governance could be strengthened if there were arrangements put in place to permit independent evaluation by external experts and by introducing the latest technologies in information management. Her delegation would be pleased to provide material on that as well to Management for discussion at the next meeting. Voting procedures, deemed an important mechanism for the Board by her delegation, should be strengthened.

348. The **REPRESENTATIVE of BELGIUM** stressed the importance that his country attached to the cost-sharing formula and would, therefore, like a paragraph to be introduced under this subject, when it would be available. In the same vein, a new item IX should be added to paragraph 45 on the Mid-Term Review and be worded "application of the cost-sharing formula". This new item should be included in the subjects for consideration at the Mid-Term Review. Finally, his delegation could not agree to paragraph 49(v) concerning the maintenance of currency convertibility if that meant the maintenance of that value.

349. The **REPRESENTATIVE of ITALY** expressed a general reservation on the Draft Report and the Draft Resolution. He would submit written comments to Management after receiving the Summary Records of the present meeting.

350. He proposed that the Draft Report and the Draft Resolution be unified into one single organic document. He also felt that the reference made on page 2 of the Draft Resolution to the Draft Report was inadequate because the Draft Report was equally an engagement like the modalities of payment on subscriptions. He could also not accept the clause in paragraph 3 of the Draft Resolution on the maintenance of value as well as the guarantee against exchange or inflation risk.

351. The **REPRESENTATIVE of JAPAN** commended Management for the Draft Report and the Draft Resolution and indicated that his delegation would submit written comments on them later. Nevertheless, as regards the Draft Report, paragraph 31-32 on PBL, he proposed that its management should be strengthened through its conditionality or absorptive capacity in borrowing countries. As regards Subscriptions (paragraph 49 of Draft Report), he believed that the proposed ratios of 30% and 15% for the effectiveness trigger and the advance subscriptions trigger respectively were lower than those in other international institutions and that such a relaxation of conditions were not appropriate to the ADB Group. Consequently, member countries should be urged to accelerate their domestic legal procedures.

352. He also shared the view of the Belgian delegate with respect to paragraph 49(v) of the Draft Report and believed that some reference on the suspension of the maintenance of value principle should be added to that paragraph.

353. As regards the payment of subscriptions (paragraph 4 of the Draft Resolution) he proposed the addition of the same sentence as the one in the ADF-VI Resolution which provided for an exceptional case where a State Participant could not effect payment on the scheduled date due to its legislative procedure.

354. The **REPRESENTATIVE of the UNITED KINGDOM** was satisfied with the framework of the Draft Report but, given the state of discussions on so many items, he did not think it was sensible to spend too much time commenting on individual aspects at this stage. He echoed the concerns of those colleagues who believed that the maintenance of

value obligation in paragraph 49(v) of the Draft Report was not appropriate. Finally, he requested Management to provide for the next meeting, a list of currencies which had depreciated by more than 20% against the SDR (paragraph 49(iv) of the Draft Report).

355. The **REPRESENTATIVE of FRANCE** would also raise only some major points and submit other written comments later to Management. He endorsed the view of the American delegate on the loan deferral mechanism (paragraph 40(vi) of the Draft Report) which was agreed to under ADF-VI and believed it would also be necessary for ADF-VII.

356. He also endorsed the Belgian delegate's view on paragraph 42 concerning the cost-sharing formula and pointed out that his country's support to ADF-VII would be subject to a Board decision for the implementation of the agreements reached on the cost-sharing formula during the ADF-VI negotiations and its Mid-Term Review.

357. Finally, he would like paragraph 43 concerning the increase in the Fund's liquidity which was rejected during the ADF-VI Mid-Term Review to be rejected also under ADF-VII.

358. The **REPRESENTATIVE of GERMANY**, like his other colleagues would also submit detailed comments to Management on the two documents. He, however, made a few comments. He believed that in the light of their discussions the formulation "resource allocation under ADF-VII should continue to be based on performance" did not give a strong impression and should be strengthened.

359. As regards the allocation criteria (paragraph 16), he recalled his position that in the case of countries not meeting any of the accepted criteria, their core programmes should not continue and under paragraph 18 of the same heading, he proposed an expansion, upstream and downstream, of the increases and decreases if indicative programmes were retained at all. He also felt that the bulk of the information under the lending instruments should be reformulated. In his view, the condition given in the last sentence of paragraph 31 concerning PBL namely, "when the loans were jointly prepared" should go a bit further in line with the that of other MDBs. Under Loan Quality Improvement, he reiterated his earlier observation on the importance of having the report of the Task Force on Project Quality prior to concluding the replenishment negotiations in order to enable Deputies present a good case for ADF-VII replenishment to their authorities. He also stressed the importance of the cost-

sharing formula to his country and joined those who rejected the formulation in paragraph 43 on the basis that it was his government's clear policy to utilize the Fund's soft money for disbursement purposes and not for income generating activities. As regards subscriptions, he echoed the views of those who were not in favour of the reduced percentages for the effectiveness and advance subscription triggers. In addition, he recommended that the previous system for payment of subscriptions in three equal annual instalments of one-third each should be maintained under ADF-VII.

360. The **REPRESENTATIVE of the NETHERLANDS** endorsed the US delegate's proposal to include some material on good governance and military expenditures in the allocation process. In addition, Management should give a more adequate description of the current process of allocation and performance-based allocation. Under Sectoral and Inter-Sectoral Priorities, he would provide some input on the linkages between the priorities and how they could be integrated into the country programming process.

361. Under Loan Quality Improvement, the important role of Country Strategy Papers should be highlighted and there should also be increased emphasis on evaluation. As regards paragraph 43 concerning financial policy issues, he endorsed the remarks made by the German and French colleagues and felt that it was premature to talk about increasing liquidity. His delegation was favourably disposed towards reducing the Effectiveness and Advance Subscription Triggers to 30% and 15% respectively. It believed that the percentage reduction would not impinge on the absolute contribution of donors but would rather give more flexibility to Management. He also had no difficulty with paragraph 49(viii) regarding the size of the first commitment tranche of 50%.

362. The **REPRESENTATIVE of NORWAY** agreed with the UK delegate that it was premature to provide detailed comments at this stage but welcomed the opportunity to highlight some major concerns and found the Draft Report an excellent basis for that purpose. First, he endorsed the American view to include in the Report language on good governance and military expenditure in line with IDA-10 practice. Furthermore, he felt that paragraph 14(iv) was a good elaboration on performance criteria. He also supported the language on environment mentioned in paragraphs 24 to 27 under Environmental Management. As regards WID, paragraph 29, he would like the language to be strengthened particularly to support the operationalization of Bank policy on it. He supported the Belgian proposal to review the cost-sharing formula during the Mid-Term Review and would also

welcome a clearer language on cost-sharing than that of ADF-VI.

363. Finally, he supported the UK request to Management to provide a list of the depreciating currencies. His country's currency was touching the 19% barrier and his parliament might have problems with subscribing in SDRs. Again, in support of UK, his country could not endorse the introduction of a maintenance of value principle.

364. The **REPRESENTATIVE of SWEDEN** observed that his country was not ready to accept the provision for the depreciating currencies and therefore supported the UK and Norwegian delegates' request for a list of the currencies in question. He also pointed out the inconsistency between paragraph 49(iv) in the Draft Report and its corresponding text on page 4 of the Draft Resolution.

365. The **CHAIRMAN**, summing up the discussions, thanked the Deputies for their additions to Management's documents. He pointed out that a substantial amount of work needed to be done and urged Deputies to pressurize themselves to making adequate decisions to enable the negotiations to be concluded as soon as possible. Management should prepare a legal opinion on how best to relate the Draft Report and the Draft Resolution. Written comments on the two documents would be most welcome and he hoped that with Bank staff assistance, a revised document, based on those comments and discussions made so far and equally incorporating areas of divergence, would be submitted for the next meeting.

366. The **REPRESENTATIVE of GERMANY** raised a point relating to an earlier recommendation by the President of the Bank to invite the Chairman of the Task Force to report to the Deputies. Restating his views expressed earlier on that the results of the Task Force formed an important element before concluding the negotiations, he wanted to know when the report would be made available to the Deputies in order to enable them or the Board of Directors to draw conclusions before finalizing the negotiations. He also commented on the Draft Report which, in his view, was a good piece of paper to start with but felt that it needed substantial revision. He suggested that all written inputs intended for the revision should be handed in as soon as possible so that Management's revised paper, reflecting Deputies' comments could become available prior to the Copenhagen meeting, in keeping with the practice followed in the IDB negotiations.

367. The **CHAIRMAN** responded that the idea of inviting Mr. Knox was appreciated and would be done if possible. He had understood that the Task Force had been asked to report by the end of March 1994 and if action by the Board of Directors was consequential to concluding the replenishment, time was of the essence if the operational capability of the Fund was to continue without a major disruption, since the effective date was 1 January 1994 and it might run out of funds. He welcomed his suggestion on the procedure for the revision of the documents and expected Management to send out a revised draft of the donors Draft Report before Christmas to enable comments to get to staff by early January 1994.

368. The **REPRESENTATIVE of the UNITED KINGDOM**, commenting on paragraph 43 on liquidity, asked if the time was not appropriate to review the liquidity situation considering the continuing losses the Fund was incurring. He wondered if the introduction of a commitment fee on loans and the shortening of the maturity including grace period from 50 to 40 years could be an option for tackling the problem. Though the Mid-Term Review discussed the issue, it still remained his view that the accounting policy of including loan provisioning was not appropriate for a concessional Fund and this was a primary reason for the large losses. He asked for more detailed information than had been provided so far on the issue.

369. The **CHAIRMAN** requested Management's views on the UK delegate's question.

370. Vice-President **LOUNES** (ADB) recalled having already reacted to the issue of the cost-sharing formula during the Hague meeting. He mentioned that the consultant had already submitted an interim report and Management was expecting the final report on Thursday, 11 November 1993 for transmission to the Board of Directors for its consideration, adoption and implementation. Management followed up to date all the decisions taken by both the Deputies and the Board of Directors.

371. The issue raised by the UK was an important one. Management was already reflecting on it and would continue to consider the three elements submitted attentively and hope to submit a paper on it for the next meeting.

OTHER BUSINESS (Agenda item 4)

372. The **CHAIRMAN** invited Management to make a presentation on the Human Resource Policy of the Bank Group.

373. Mr. **SARR** (ADB), presenting the Bank Group's Human Resource Policy, stated that, for the next five years, the Bank's strategy for human resources would be based on the Bank's operational priorities, i.e. Agriculture, Social Sector, particularly primary health care and basic education, Poverty Alleviation and the new initiatives namely, WID, Environment, Private Sector Promotion and possibly Micro-Enterprises Development. The staffing strategy would be based on two broad guidelines: (i) to enable the Bank to be flexible to adapt itself to any possible changes; and (ii) to enhance, on a continuous basis, the productivity, which could serve as a shock absorber so that additional staffing requirements would not always be met through immediate recruitment but first through staff redeployment.

374. Before dealing with the measures adopted or to be adopted, he responded affirmatively and negatively at the same time to the question as to whether or not the Bank Group currently had adequate staff, quantitatively and qualitatively. He explained that, on the one hand, Bank staff was currently capable of producing quality work within fixed deadlines, comparable with that of other similar institutions. On the other hand, there was a recruitment shortfall of 10 persons budgeted for under ADF-VI. There was also adequate room for improvement at the level of both the staff and the Bank. The new activities being undertaken in the areas of environment, improvement of project portfolio and computerization of the integrated administrative and financial management systems (SIGAF), would all require staffing which had not yet been taken into account. A comparison of the Bank's staffing level with that of other sister institutions showed that the ADB Group was below theirs.

375. Other measures taken or to be taken included the continuing redeployment of staff to departments which needed them most and to positions where they would be most functional. The second series of activities were geared towards the enhancement of staff productivity through the rationalization and improvement of procedures and manuals, computerization adapted to user requirements, increased staff motivation through improved career management, effective training and improved performance evaluation. Selection and recruitment procedures were also improved and that made it possible to recruit competent

staff and in particular increase the number of young professionals in the Bank.

376. Finally, measures were also being taken to have an accurate blend of regular Bank staff, short-term "temporary" staff and consultants. In compliance with a Board decision, 3% of the administrative budget was reserved for temporary staff and Management hoped to arrive at a similar understanding for consultants to avoid a high increase in regular staff. He recalled that a document on staff redeployment would be submitted to the Board of Directors before the end of December 1993. Under the redeployment exercise, about 50 positions would be removed and placed in a pool which would deal with the Bank's new orientations, notably, the improvement of the Bank's portfolio. That category of staff would assist in putting in place the ADF-VII programme after the final figure had been approved.

377. In order to determine the optimum environmental needs, a special study was conducted on staffing needs with USAID support. The document which was ready for submission to the Board proposed 13 positions for 1994 and 4 for 1995. The document also proposed the merging of the environment and poverty alleviation elements under a special unit.

378. As regards Project Quality, the report to be submitted in April 1994 would propose the staffing needs to implement the increase for improvement that would be the main thrust of the report. A report to be conducted on the global salary package to enhance staff motivation would be submitted to the Board in 1994. A new method for performance evaluation aimed at a more reliable performance system was underway. To improve staff output, a project and loans management system (PALMS) had been set up to provide data on supervision in addition to SIGAF mentioned earlier. Finally, as regards recruitment procedures, improvements had been made in the selection and analysis of curriculum vitae with the assistance of Canada.

379. The **REPRESENTATIVE of the UNITED KINGDOM**, commenting on Management's overview of personnel policies, raised a question on the 10% share of the representation of non-regional members among the professional staff and wanted to know whether Management regarded it satisfactory and if not the measures being taken to rectify the situation.

380. The **CHAIRMAN**, in the absence of other comments, requested Mr. Sarr to respond to the question raised by the UK delegate on the non-regional representation level at the Bank.

381. Mr. **SARR** (ADB) stated that it was a priority objective of the Bank to increase the number of both women and non-regional staff and to that end Management had already undertaken a number of missions to several non-regional countries including Canada, Korea, China, Japan, Sweden and the Netherlands and other missions were programmed for Switzerland and other under-represented countries.

382. The **REPRESENTATIVE of FRANCE** observed that he did not have the same impression as the one given by Management on personnel administration in the Bank. He had the feeling that the computer system was undergoing real difficulties due to lack of integration and that was having negative consequences on productivity in general and he felt that major efforts needed to be done in this area.

383. Secondly, he indicated that the reference to other institutions was important but there was actually the feeling that there was over-staffing in the Bank and Management should look for the source of the over-staffing.

384. The **REPRESENTATIVE of CANADA** reiterated his country's strong commitment to the ADB Group and the fact that its primary objective, in the months ahead, was to strengthen both the Bank and the Fund for the Bank Group to fulfil its role as Africa's premier financial institution. He noted the importance attached to the improvement in the Bank's financial operations and the enhancement of its developmental effectiveness including good governance. He cautioned that strong public support depended on the cost-effectiveness of the Bank's operations and sound administrative practices which must blend with transparency, probity and due process. He welcomed Management's initiative to review the procurement procedures and looked forward to the results. He hoped that benefit-sharing would also be considered along with burden-sharing during the ADF-VII replenishment negotiations.

385. The **REPRESENTATIVE of NORWAY** wanted to find out whether it would be appropriate for him to comment on the cost-sharing formula at this stage because it was earlier announced that it would be discussed under Other Business.

386. The **CHAIRMAN** drew his attention to an information provided earlier by Management that the final report by a consultant on cost-sharing was being awaited for Board discussion and decision. He asked him whether he had something to say to Management on the issue.

387. The **REPRESENTATIVE of NORWAY** expressed his country's frustration at the lack of follow-up on decisions made during replenishments on the issue of cost-sharing and recalled that in 1992 the Fund contributed nearly 60% of the Bank Group's administrative costs. He cautioned that unless a satisfactory solution was found, Norway would be unwilling to proceed further in the negotiations.

DATE AND VENUE OF NEXT MEETING (Agenda item 5)

388. The **REPRESENTATIVE of DENMARK** announced that her government would be pleased to offer to host the next ADF replenishment negotiations in Copenhagen and proposed 20-21 January 1994.

389. The **CHAIRMAN** thanked the Danish delegate for the offer and hoped that Copenhagen would provide the climate for a good and fruitful meeting.

390. Closing the meeting, he recalled that, on behalf of the Participants and Fund Management, the President of the Bank had earlier that day expressed his gratitude to the President and people of Burkina Faso for hosting the meeting. He, as Co-ordinator, would also like to express his gratitude to the staff of the Bank and the Fund for the efforts made towards the smooth organization of the meeting.

391. He identified the need for a strengthened policy concept to enable the Fund to function in the 1990s with a substantial replenishment result. The meeting recognized that eligibility and allocation criteria had an explicit link and there was further room for strengthening performance based allocation. On Eligibility, no final decision was reached but Deputies called for the adoption of one of the three options : IDA-10 approach, SPA or maintenance of the current procedure. Management would provide further information on the implications of the various options. No final conclusion was reached on the debt issue but it was agreed to further the discussion and strengthen the dialogue with Management on the issue.

392. A lot of progress was achieved on Technical Assistance and an in-depth evaluation should be undertaken by Management of what it had achieved so far. There was justification for maintaining the 10% share in view of the new priorities to be integrated. On Micro-Enterprises, a foundation was reached to finalize the approach. On the donors Draft Report, Management received a lot of suggestions with a view to enriching it. Management would provide them with a faithful record of their proceedings. He thanked all present for their co-operation. He hoped that Mr. Mazairac would be back to chair the next meeting but assured the assembly of the commitment of both of them to Africa's development. He wished everyone a safe journey back home and finally reminded members of the informal group meeting after lunch to explore possibilities of agreement on some issues.

393. The **PRESIDENT** (ADB) thanked the co-ordinator for all the efforts he had made towards the preparation of the meetings, the conduct of the proceedings and in seeking consensus on the different items discussed. Seeking consensus was not an easy task even though it was meant to avoid an impasse, such as in the discussions on debt alleviation, where no clear consensus was reached and there was need to clear the misunderstanding on the rationale behind the proposal to prove that the proposed mechanism was not to clean up the Bank's balance sheet but to assist Category A countries. The exchange of views on Micro-Enterprises was very fruitful. Management had retained the emphasis on NGOs as appropriate intermediaries instead of central banks and parastatals. Since poverty alleviation represented a major concern for all the Deputies, he hoped that efforts would be made to reach a reasonable level, not that of Management but certainly beyond that proposed by some Deputies because that might not even have a token impact on poverty in Africa.

394. On Eligibility, there was a common concern on the fact that access to ADF should be limited to Category A countries only. He added that it would be important to make a clear distinction between countries eligible for ADF resources and those eligible for ADB lending. Nevertheless, to attain such an objective there was a need to put in place compensatory measures for countries which had access to ADB lending only. He specified that it would be abnormal to consider the Fund's replenishment as a debt alleviation mechanism. Countries which would not be eligible for ADF lending would have to be clear in their decisions in order not to worsen their debt situation with ADB lending. The Bank would also have to be firm in its use if accorded such a facility.

395. Another area of concern was the result of the Task Force on Project Quality. The concern expressed by Deputies about the usefulness of its work to the negotiations was quite legitimate but since the report would only be ready by the end of March 1994, it was obvious that if the finalization of the negotiations should be linked to that report, an agreement on the replenishment would not be reached before May 1994. The Board of Directors would first have to consider the report and transmit it to the Board of Governors. That was to draw the attention of Deputies to the possible impact of such a delay on the ADF's operations.

396. He wondered whether there was a clear demarcation between the ADB and the ADF at this stage. The concerns expressed about the Bank's financial position, management as well as its governance were most appropriate and to that effect it would be important for the Task Force on Project Quality to take into account the results of similar committees such as that of Mr. Qureishi's Task Force and the study by the Nordic countries on the Bank and prepare a general report on that for the ADB Group. As regards burden-sharing, he believed that it was absolutely necessary to review the market rates so that there would be total transparency, which should give psychological satisfaction to other shareholders that the rates applied were based on clearly defined rules.

397. Once again, he thanked the Deputies for their contributions to the discussions which reflected their commitment to the eradication of poverty in Africa and to Africa's development. On behalf of all the representatives, he had that morning conveyed his appreciation to the Head of State, Government and people of Burkina Faso, for hosting, for the first time, an ADF consultative meeting in one of its beneficiary countries. He would also seize the opportunity during the rest of his stay, to reiterate, on their behalf, to the Burkinabé authorities, his total satisfaction for the reception given them in Ouagadougou. Finally, he hoped that further progress would be achieved during the next meeting in Denmark to enable a conclusion to be reached on the ADF-VII replenishment. Once again, he thanked the Co-ordinator and wished Mr. Mazairac a speedy recovery.

The meeting rose at 2.00 p.m.

AFRICAN DEVELOPMENT FUND

ANNEXES

Third Consultative Meeting on the Seventh
General Replenishment of the Fund
Ouagadougou, 8-10 November 1993

PROVISIONAL AGENDA

- | | | |
|-----|---|---------------------------|
| 1. | Adoption of the Agenda | |
| 2. | Provisional Summary Records of the
Second Consultative Meeting held in
The Hague, 29-30 July 1993 | ADF/ZG/ADF-VII/CM.3/93/SR |
| 3. | Consideration of Substantive Papers : | |
| 3.1 | ADF Eligibility Criteria | ADF-VII/CM.3/93/17 |
| 3.2 | Review of Criteria for the Allocation
of ADF Resources | ADF-VII/CM.3/93/16 |
| 3.3 | ADF Debt Alleviation Mechanisms Revisited | ADF-VII/CM.3/93/14 |
| 3.4 | Considerations on Support for
Micro-Enterprises | ADF-VII/CM.3/93/13 |
| 3.5 | Review of Technical Assistance Fund
Operations | ADF-VII/CM.3/93/15 |
| 3.6 | ADF-VII Replenishment Scenarios | ADF-VII/CM.3/93/18 |
| 3.7 | Draft Report on the Consultative Meeting
on the Seventh General Replenishment of
the Resources of the African Development
Fund | ADF-VII/CM.3/93/19 |
| 3.8 | Draft Resolution Concerning the Seventh
General Replenishment of the Resources
of the Fund | ADF-VII/CM.3/93/20 |
| 4. | Any Other Business | |
| 5. | Date and Venue of Next Meeting | |

AFRICAN DEVELOPMENT FUND

FONDS AFRICAÏN DE DEVELOPPEMENT

**SEVENTH GENERAL
REPLENISHMENT OF
RESOURCES**

**SEPTIEME RECONSTITUTION
GENERALE DES RESSOURCES**

**OUAGADOUGOU
8 - 10 NOVEMBER, 1993**

**OUAGADOUGOU
8 - 10 NOVEMBRE 1993**

**FINAL LIST OF PARTICIPANTS
LISTE FINALE DES PARTICIPANTS**

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Ouagadougou, Burkina Faso

**Centre des Conférences de l'Hôtel Pullman Silmandé
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