

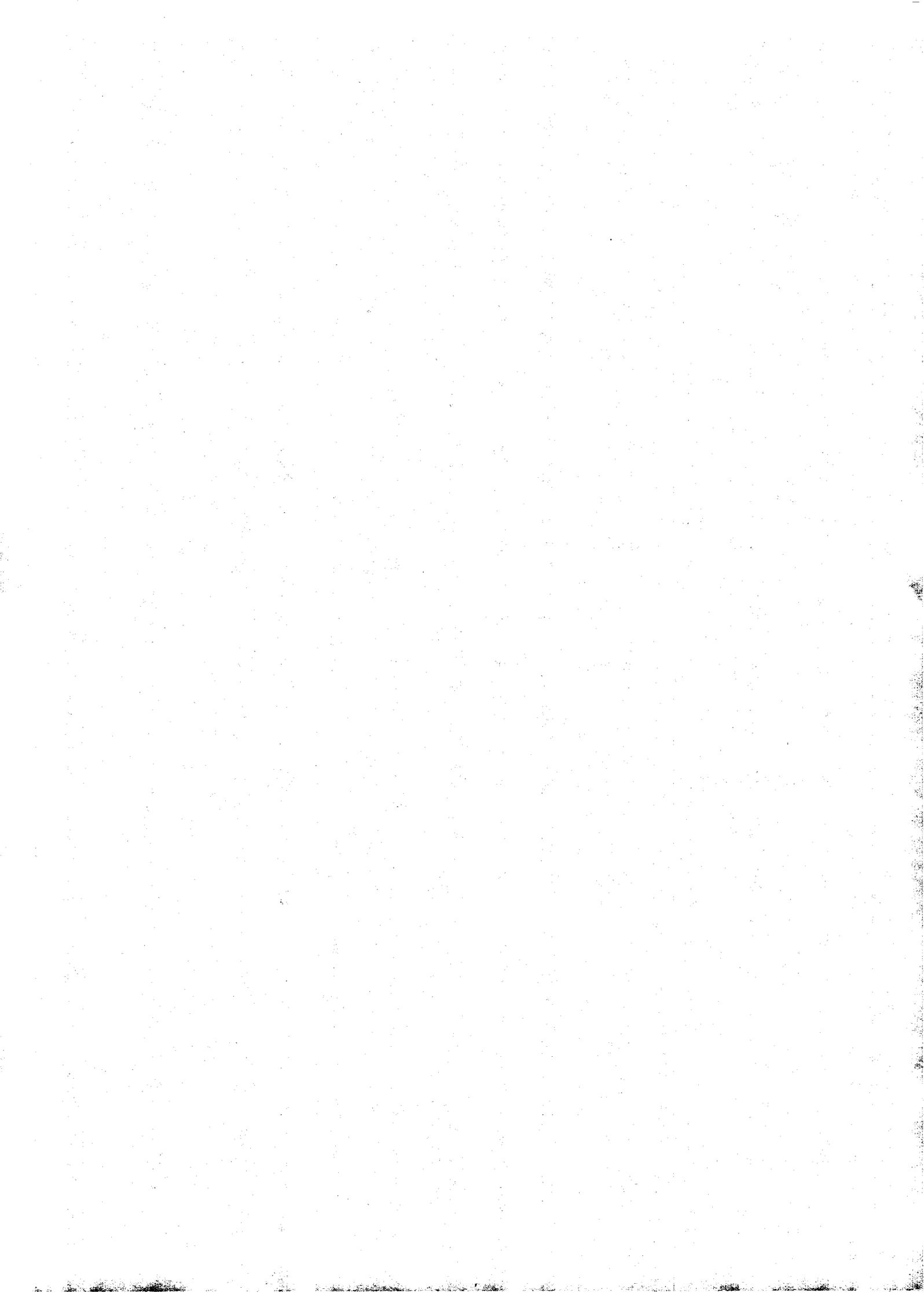
**AFRICAN DEVELOPMENT FUND**

**ADF/ZG/ADF-VII/CM.6/94/SR**  
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**PROVISIONAL SUMMARY RECORDS OF THE  
SIXTH CONSULTATIVE MEETING ON THE SEVENTH  
GENERAL REPLENISHMENT OF THE ADF RESOURCES**

**9 DECEMBER 1994**



**PROVISIONAL SUMMARY RECORDS OF THE SIXTH MEETING  
ON THE SEVENTH REPLENISHMENT OF ADF RESOURCES**  
held at Kenyatta International Conference Centre,  
Nairobi, Kenya, from 7 to 10 May 1994

- 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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- : **Discussion of Draft Report and Draft Resolutions**
- : **Closing Remarks**

SATURDAY - 7 MAY 1994

**ADOPTION OF AGENDA (ADF-VII/CM.6/94/31)**

1. The meeting adopted the following Agenda :
  1. Opening Remarks by Coordinator
  2. Brief Statement by Management on measures taken since last meeting
  3. Further Discussion of Deputies Report
  4. Consideration of Outstanding Issues (from Deputies Report)
  5. Replenishment Level and Burden-Sharing
  6. Any Other Business.

**OPENING REMARKS BY COORDINATOR**

2. The **CHAIRMAN** thanked the Kenyan authorities for the warm hospitality which was accorded to the delegates on the eve of the Annual Meetings of the Bank Group. He welcomed the delegates to Nairobi and recalled, for the benefit of the new arrivals, the deliberations of the last meeting in Bern where it had been possible to speak seriously, constructively and frankly on the basis of the April 1994 letter addressed to the Chairman of the Boards of Governors and the President of the Bank Group. He outlined the salient points of that meeting : financial policies, operational policies, organization and methods, issues of quality, which required a special attention to ensure the progress of the Bank Group.

3. He also recalled that during that meeting the Chairman of the Boards of Governors had undertaken to apprise the regional partners of the contents of the correspondence, while for its part Management would study them in-depth. He was gratified by the actions and measures that had been taken in both directions. Furthermore, at his request, several Deputies (United States of America, Germany, Spain, Japan, Sweden, France) had forwarded written comments on the Deputies' Draft Report and Draft Resolution. Those comments had been incorporated into the final draft, but the French version was yet to be completed. Referring to the letter by the Governors of OECD members, he invited them to give the necessary instructions to their respective Deputies to be ready to conclude the negotiations.

4. The purpose of the present meeting was to conclude discussions on the items left outstanding in Bern in order to pave the way for the effectiveness of the Seventh Replenishment of the Fund's resources. The outstanding issues, which were indicated in the Draft Report (Rev.3), included : Percentages among the lending instruments; Percentages among the different categories of member countries; Debt Mechanism; Liquidity Level; Replenishment Level and Effectiveness.

5. He observed that the current meeting was important because it should provide the participants the opportunity to reconcile certain points of view which were crucial for the future of the Bank. But that could not be achieved by the ADF alone, and the regional partners should make their own contribution through dialogue.

6. Regarding the various demands being made on Management, he noted that the Knox Report has recommended the path of wisdom which was that of realism and moderation.

#### **BRIEF STATEMENT BY MANAGEMENT ON MEASURES TAKEN SINCE THE LAST MEETING**

7. Vice-President LOUNES associated himself with the warm thanks that had just been addressed to the Kenyan authorities for the high quality of the welcome extended to the delegates. He recalled that since the last meeting held in Bern, Management had applied itself to identifying all the measures to be taken to respond to the major concerns and issues raised by the Deputies and the Coordinator in his letter. In this context, six key issues were mentioned.

(a) **Restructuring and Staff Redeployment**

The Board has already requested Management to prepare a staff redeployment programme and a draft restructuring of the Institution for the 1994 Budget. But Management deemed it opportune to integrate the Board's contributions, as a result of which the exercise was postponed to August 1994.

(b) **Operational guidelines for the implementation of the poverty alleviation policy and the population policy**

The documents are ready and will be transmitted shortly to the Boards of Directors for information and consideration. Management had revised the new document on operational guidelines on country risk commitment, which had already been discussed by the Board, for presentation to the September 1994

meeting.

(c) **Financial Policies**

The Bank is perfectly aware, in the present circumstances, of the importance of continuing efforts on the rationalization and consolidation of the Institution's financial policies. But on the two essential issues of the rate of provisioning for non-performing loans and lending rate, Management will make a proposal to the Board in the light of the financial results as at 30 September 1994.

(d) **Problem of Arrears**

Some actions have already been taken in the last few weeks. Management is optimistic about the prospects for improvement, particularly in the context of supporting measures in favour of Franc Zone countries in the aftermath of the devaluation of their currency, and in concert with the other partners, including the Bretton Woods Institutions.

(e) **Creation of an ADF-only Category**

Management feels that this extremely important issue requires more detailed reflections by the Deputies before a final decision is taken. If such a decision were taken without supporting measures, it may be counter-productive to the desired objective.

(f) **Project Quality**

Management has prepared a programme of actions made up of measures falling within its competence and which are presently under discussion. They are phased in, and within the framework of portfolio improvement and project management within the institution.

8. Mr. FALL presented, in form of additional information, the methodology utilized for treating the problem of arrears as a result of which the countries concerned were divided into three categories together with the actions taken by Management since the last meeting. Management was concerned, in the context of SPA, to seek the best way to integrate the totality of arrears due from SPA member countries. Those arrears were henceforth taken into account in the tables of financial operations to ensure that the resources flow expected

from the principal donors equally integrate the flow of arrears. The SPA itself had been established in a joint agreement with the World Bank and the IMF.

9. In that context, Côte d'Ivoire's arrears amounting to US\$ 80 million had been completely settled. An SPA was put in place for Cameroon with a sum of CFAF 60 billion, US\$ 30 million was paid for Gabon, and negotiations were underway for CAR (US\$17 million). Concerning Sudan and Nigeria, countries for which assurances had been given relating to US\$56 million, the discussions were being pursued even in Nairobi.

10. He explained that he had left out in this presentation the group of countries in technical arrears and the countries experiencing social or political problems such as Guinea-Bissau, Angola, Zaire and Rwanda.

11. Mr. **MERGHOU** stated that the Bank had duly reflected on the implications of the creation of an ADF-only Category of countries and that, at the present stage, the proposal of the ADF delegates was not similar to the situation obtaining in IDA. In effect, the ADF threshold would be US\$1,054 against IDA's US\$825, the list of the countries concerned would be respectively longer in the ADF than in IDA, some otherwise performing Category A countries, such as Mauritania, Ghana and Ethiopia would receive less from the resources of ADF-VII than those of ADF-VI, and the countries previously classified Category B would, on moving to Category A, receive negative transfers.

12. Moreover, the African Development Bank found itself marginalized by both the countries and the World Bank, because it would be viewed only as a debt recovery agency.

13. In conclusion, he added that a new Category B1 was envisaged which, unlike Categories B and C countries, would not involve the problem of creditworthiness for Category A countries.

14. The **CHAIRMAN** commented that the above explanations should be put in an explanatory note.

15. The **REPRESENTATIVE of CANADA**, after expressing his gratitude to the Kenyan Government for the high quality of its hospitality and Management for the excellent preparation of the present meeting, wanted to know the latest position of the net income for the first quarter of the year, and if Management had had discussions with the rating agencies. As for Mr. Merghoub's intervention, he could not see an eventual marginalization of the Bank arising from the creation of an ADF-only Category.

16. The **REPRESENTATIVE of the UNITED KINGDOM** expressed his appreciation to the Kenyan Government for the warm welcome extended to the participants. He noted that after listening to Vice-President Lounes, he had not detected the feeling of urgency which the situation required. The issue of the lending rate ought to have been resolved before the end of 1993. He was concerned by the possibility of another opportunity being lost. Besides, he noted that the initial reaction to the Knox Report had not been a plan of action. On the issue of arrears, there were certainly positive developments, but the dialogue with the countries concerned seemed not to have been taken seriously.

17. Vice-President **LOUNES**, responding to the first question raised by the Canadian delegate, stated that a meeting had been set with the rating agencies for the first week of July 1994. The risk of marginalization mentioned by Mr. Merghoub affected the Institution as a whole, because it was the overall resources of the Bank Group that had fallen.

18. Mr. **MORCOS** (ADB) said that at the time of leaving Abidjan, the Bank delegation had only estimated figures of income, with the forecast of about UA 60 million for the year, i.e. 15 million per quarter. Whereas, during the first quarter, the Trading Room had incurred losses from the State bonds in Japan and Germany, losses which resulted in a net loss of UA 31 million. Furthermore, Sudan and CAR had come under non-accrual of income.

19. Vice-President **LOUNES** added, in connection with losses, that all the portfolio managers had incurred as much as the Trading Room, and that those bonds had nonetheless been rated AA+ or AA; the Trading Room had recorded a gain of UA 3.5 million for April.

**The Chairman of the Boards of Governors joined the Meeting.**

20. The **REPRESENTATIVE of GERMANY** noted with interest the progress accomplished regarding arrears, and requested to be informed about the position of Zaire and Liberia, which were the problematic cases. He thought that it would be wrong to put in the ADF-only Category more countries than those in the IDA-only Category. On the basis of the latest given figures, he wanted to know the amount of the Bank's loss. He regretted that the document did not include a plan of action.

21. The **REPRESENTATIVE of SWITZERLAND** also expressed his delegation's gratitude to the Kenyan authorities. He enquired whether it was proposed to prepare a draft resolution embodying an implementation schedule for consideration by the Steering Committee of the Boards of Governors. He thought it inappropriate trying to perpetuate and justify indebtedness through the rejection of negative transfers.

22. The **REPRESENTATIVE of the UNITED STATE of AMERICA** thanked the Kenyan authorities for the welcome which was extended to his delegation. He pointed out that his delegation was willing to work along the lines indicated by the Deputies during their last meeting in Bern. He congratulated Management on its special efforts to produce such a high quality document. He noted, on the issue of eligibility, that there was never a consensus on development.

23. The **CHAIRMAN** preferred that the full text be read out.

24. The **REPRESENTATIVE of FRANCE** reverted to his Swiss colleague's statement on the creditworthiness of the beneficiary countries which underlined the importance of putting in place a country risk policy. It was one of the areas in which his country expected to see concrete results before committing itself on the ADF-VII. He would like to have more details on the figures given by Vice-President Lounes and Mr. Merghoub.

25. The **REPRESENTATIVE of JAPAN** thanked the Kenyan Government and Mr. Keah for the high quality of hospitality which was extended to his delegation. He now feared that it might not be possible to conclude the negotiations within the desired time. He had specific comments on Management's statement and thought that one should move fast. He wanted to know how the Chairman expected to organize the proceedings.

26. The **CHAIRMAN** indicated that he was only the spokesman of all the Governors whose concerns should be taken into consideration. A consensus was necessary because several issues were interdependent.

27. The **REPRESENTATIVE of ITALY** noted that it would be very difficult to attain a consensus that day. Though detailed, the explanations on arrears were unsatisfactory. Promises having been made in the past, the time had come for action. The document on country risk arrived too late and weakened ADF's credibility.

28. The **CHAIRMAN** recalled that at the Bern Meeting, a consensus had emerged on the concept of an ADF-only category. Mr. Merghoub had drawn the consequences of such a category, in keeping with the duty of Management.

29. The **REPRESENTATIVE of the UNITED KINGDOM** thought that there was still much work to be done. It seemed to him that Management was not convinced by the urgency of the outstanding tasks. A document on the financial policies had been submitted to the Board in June 1993, but it was a hasty document, which had given satisfaction on only one item. He reiterated the question about improvement of the provision of information by

Management to the Boards.

30. The **REPRESENTATIVE of BELGIUM** thanked the Kenyan authorities for their warm welcome. He regretted not sharing the same enthusiasm as the United States representative, and indicated that his Government was preoccupied by two issues, namely, the stand-by mechanism for debt management, and the - insufficient - assurances which should facilitate the conclusion of an agreement.

31. Vice-President **LOUNES** pointed out that some of the numerous questions raised were outside the competence of the present meeting. In reply to the Italian representative, he stated that the information given on arrears could be verified. He then assured the representative of France that the replies to his questions appeared in the document on country eligibility. He noted that the measures to be taken for the improvement of information flow between Management and the Board would group together all the questions raised.

32. The **CHAIRMAN of the BOARDS of GOVERNORS** announced that he would convene an information meeting with his colleagues.

The sitting was suspended at 5.30 p.m.

**SUNDAY - 8 MAY 1994**

### **CONSIDERATION OF OUTSTANDING ISSUES**

33. The Deputies discussed appropriate arrangements and conditions necessary for concluding the negotiations on the Seventh General Replenishment of the Fund. In view of the importance of the task before the meeting, two separate working groups were constituted: Committee on Debt Mechanism and Drafting Committee on other Outstanding Issues, including Debt Mechanism and the establishment of an ADF-only category.

34. The **CHAIRMAN** welcomed the President of the Bank Group. He observed, in connection with the debt alleviation mechanism, that it was important to have a safety net in the Bank, whereas the use of the fresh resources of the Fund raised legal problems. Reverting to the previous day's discussions, he referred to a document distributed in Ouagadougou for subsequent reflection with the respective legal advisers of State Participants. Voluntary contributions or NTF resources would be other paths to be explored for constituting the safety net.

35. The **REPRESENTATIVE of BELGIUM** recalled, with respect to the Ouagadougou legal document, that his country's delegation had handed a written note to the ADB General Counsel in Copenhagen.

36. The **REPRESENTATIVE of SWITZERLAND**, on a point of procedure, stated that he did not think it possible to convince day that the delegations who were not yet convinced of the necessity for the safety net. In fact, many countries seemed to be unable to make a subscription, even on a provisional basis. Legal and financial questions of principle were involved. In his opinion, continuation of the discussions on this point would only unnecessarily delay the conclusion of the ADF-VII negotiations.

37. Since it was a question of net income, the resources could come from either within or outside the Bank itself. Drawing from the ADF resources, through cancellation or reimbursements, should be excluded.

38. The **REPRESENTATIVE of CANADA** said that the facility was essential and that he had previously explained why. He advocated, for the time being, the adoption of the principle and the postponement of consideration of the modalities to a later date. The mechanism was new, having regard to the opposition already encountered by policy-based loans and the Fifth Dimension.

39. The **REPRESENTATIVE of the UNITED KINGDOM** agreed with his Canadian colleague on consideration of the appropriateness of the safety net. Reassuring information had been given on the impending settlement of arrears, and he wanted to know if Management had made new projections in the light of that information. The Committee of Governors could ensure the follow-up.

40. The **REPRESENTATIVE of FRANCE** doubted whether substantial progress could be achieved on the matter. His Government considered that the plan entailed several disadvantages, including the lack of legal feasibility, the problems of equity and cost-sharing between the non-regional countries, the risk of budget and programming slippage; besides, it would be only a partial solution; the mechanism was costly and lacking in leverage effect, its introduction would be detrimental to the ADF-VII beneficiary countries, without any influence on net income, if financial orthodoxy were observed in its accounting treatment. The chief disadvantage was the delay to the ADF-VII negotiations.

41. He concluded by expressing the view of his authorities that such a trust fund should be kept with the ADB, not the ADF, and be managed by a Committee of Donors. France would take part if those conditions were met.

42. The **REPRESENTATIVE of NORWAY** felt, in view of the complexity of the problems encountered, that the proposal should be considered within the context of the next capital increase.

43. The **REPRESENTATIVE of the UNITED STATES of AMERICA** pointed out that the resolution of the key problem was a matter of willingness. It was unrealistic to think that they would be resolved within the context of the general capital increase. There was no moral risk. Concerning the legality of the proposal, it would become legal if it were enshrined in an agreement in line with the interpretation to be made of the statutes.

44. The **CHAIRMAN** invited the United States Representative to comment on the French proposal for keeping the fund with the ADB.

45. The **REPRESENTATIVE of the UNITED STATES of AMERICA** said that it was not possible for him to give a short reply to the suggestion.

46. The **REPRESENTATIVE of FRANCE** reiterated that it would be a trust fund to be kept with the Bank and managed by a Donors Committee, the modalities of which would reflect the proposals already made.

47. The **REPRESENTATIVE of the UNITED STATES of AMERICA** asked if that was the official position of France.

48. The **REPRESENTATIVE of FRANCE** replied in the affirmative.

49. The **REPRESENTATIVE OF JAPAN** observed that the previous day had witnessed both good and bad news. The good news was the settlement of arrears and the bad was the substantial losses incurred on bonds issued on the German and Japanese markets.

50. With regard to the safety net, he expressed the view that if it was meant for the Bank, then there was a moral risk which should be borne in mind when considering the position of arrears.

51. The **REPRESENTATIVE of CANADA** stated that the safety net was for the sake of the member countries, and would protect the Bank and the callable capital. He requested that a short document on the issue be provided that afternoon. He recognized the merit of the French proposal, he wanted to know how much it would cost to put the safety net in place, and what would be the benefits of a stand-by mechanism for the Fund compared to a trust fund kept with the ADB.

52. In his opinion, the legal risk was even on both sides; it was better to have such a mechanism, even unused, than having to regret the lack of it between now and 3-6 months time.

53. The **REPRESENTATIVE of FRANCE** explained that a call for capital was aimed at redressing a short-fall in liquidity, and not a net negative result. He requested Management to prepare a document on a worst case scenario.

54. The **REPRESENTATIVE of the UNITED STATES of AMERICA** implored his colleagues to avoid proceeding endlessly in the same direction. When one spoke about the fragility of the Bank, that characteristic in fact did not refer to the Bank, but to the member countries.

55. The **CHAIRMAN** announced that the Drafting Committee would comprise the representatives of the United State of America, Canada, France, Japan and Germany.

56. The **REPRESENTATIVE of GERMANY** was not convinced that it was legally possible to establish such a fund.

57. The **REPRESENTATIVE OF AUSTRIA** recalled the difference between a mechanism kept with the Bank and the Fund.

58. The **CHAIRMAN** commented that the said mechanism should not be viewed in isolation.

59. Mr. **MERGHOUB** indicated that it was after a meeting with the rating agencies that a debt management mechanism had been mentioned for the first time. The rating agencies attached considerable importance to the manner in which shareholders reacted to the position of countries in arrears as a result of political or social problems.

60. The **REPRESENTATIVE of SWITZERLAND** wanted to know whether there were proposals on the classification of countries.

The sitting was suspended at 2.45 p.m. and resumed at 5.00 p.m.

## **COUNTRY ELIGIBILITY, RESOURCE ALLOCATION AND DEBT MECHANISM**

61. Mr. **MERGHOUB**, on behalf of Management, presented the background paper for the guidelines on Country Eligibility and Resource Allocation which were scheduled to be

produced in August-September 1994.

62. Deputies considered that the paper constituted a good start; advised Management to take advantage of the analysis previously undertaken by the World Bank and the IMF so as to revise the paper as appropriate; suggested that the guidelines be updated periodically; reaffirmed their commitment to the ADB and the ADF; and stressed the urgent necessity for the Bank Group to have an ADB-only category and an ADF-only Category, given the scarcity of concessional resources and the decline in aid budgets.

63. Vice-President **LOUNES** reminded Deputies of the Bank President's concerns about the serious policy and technical problems which would face the entire Bank Group as a result of the establishment of an ADF-only category. He therefore suggested that further consultations should be carried out on the matter among the different delegations, including those which were just arriving in Nairobi.

64. Executive Director **MOUSSA** also expressed the Regional Member Countries' misgivings about the proposal which would imply the denial of access to their own development finance institution without corresponding compensation by adequate replenishment of the Fund's resources.

#### **DISCUSSION OF DRAFT RESOLUTIONS**

65. The **CHAIRMAN** invited participants to consider the Draft Resolutions submitted by the working groups concerning :

- Measures to enhance cooperation and efficiency in the ADB and ADF;
- Establishment of an Ad Hoc Committee on the Fifth General Increase of the ADB Capital;
- Issues of financial management and allocation of the Bank resources for 1996 and beyond;
- Appeal to the Regional Member Countries to settle their arrears with the Bank.

66. Several formal and informal consultations and meetings were held on the above draft resolutions and on such key issues as credit policy, creditworthiness, GNP-based eligibility approach, etc.

67. The **CHAIRMAN** announced that the Draft Report would be one hour's late and that the basket of resolutions could be considered in the meantime. In addition to the replenishment, a table was being prepared for the announcement of subscriptions for action in the next few days. In fact, a serious attempt would be made for launching the GCI as well as the ADF-VII Resolution.

68. Only one delegation, the French, made comments on the Resolution. He requested Mr. El-Obeid to take stock of the outstanding issues.

69. Mr. **EL-OBEID** explained that the first issue to be addressed was the entry into force of the Resolution in the light of the percentage of subscriptions and the threshold of the trigger mechanism. Added to that was the relative size of the tranches: would they be equal or of decreasing amounts? He also recalled the request that had been made in Ouagadougou that countries whose currencies had been devalued by more than 10% should subscribe in the SDRs.

70. The dates 30 November 1994, 1995 and 1996 or 1 January of each year had been suggested for the payment of the tranches.

71. The **REPRESENTATIVE of FRANCE** said he had announced an amount of UA 170-180 million which would be dependent upon the contribution of the United States of America. He requested the Chairman to clarify the procedure.

72. The **REPRESENTATIVE of the UNITED STATES of AMERICA** recalled that the level of his country's contribution had been previously fixed in Bern. He wondered, should the replenishment be agreed upon on that day or on the following day, how one could ensure that the conditions contained in the Resolutions would be taken into consideration. He noted also that in considering the threshold of the trigger mechanism sight should not be lost of the requirements of the respective budget cycles of the State Participants. Concerning the size of the tranches of payment, his country would be unable to comply if the proportion of 50%, 30% and 20% became obligatory. Finally, he appreciated the work done by the Bank's General Counsel.

73. The **CHAIRMAN** observed that multilateralism implies a minimum of understanding on common issues.

74. The **REPRESENTATIVE of CANADA** said that the Draft Resolution contained some unacceptable items such as inflation rate, maintenance of value, and refusal to accelerate encashments.

**MONDAY, 9 MAY 1994**

**DISCUSSION OF THE DRAFT REPORT AND DRAFT RESOLUTIONS**

75. During their deliberations, Deputies made several amendments particularly to the paragraphs dealing with : Sectoral and Inter-Sectoral Priorities; Environmental Management; Women in Development (WID); Micro-Enterprises; Country Eligibility, Resource Allocation and Additional Concessional Resources.

**TUESDAY, 10 MAY 1994**

**DISCUSSION OF THE DRAFT REPORT AND DRAFT RESOLUTIONS (Continued)**

76. This sitting was devoted to consideration of the Draft Report (Rev.5) incorporating the latest amendments, especially on Additional Concessional Resources; tranching mechanism; Mid-Term Review; Country Eligibility and Resource Allocation.

**CLOSING REMARKS**

77. It was agreed, in view of the consultations taking place on certain key items on the agenda of the Annual Meetings in general and the joint Draft Resolutions in particular, that Deputies should continue their consultations on an informal basis among themselves, with Management and regional member countries delegations on the following issues : credit policy; scarcity of donor resources; policy-based lending (5th Dimension); GNP-based country eligibility.

**DATE AND VENUE OF NEXT MEETING**

78. The venue and date of the next meeting will be determined in the light of the aforementioned consultations.

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