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REPORT OF THE JOINT STUDY TEAM ON THE ESTABLISHMENT OF A SUBREGIONAL TRADE AND DEVELOPMENT BANK FOR EASTERN AND SOUTHERN AFRICA

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CHAPTER I

INTRODUCTION

1. At their fifth meeting held in Addis Ababa in October 1979, the Inter-Governmental Negotiating Team (INT) on the establishment of the Preferential Trade Area (PTA) for Eastern and Southern African States decided, inter alia, that thought be given to the establishment of a financial institution or investment bank that would assist the subregion in mobilizing resources for the promotion of multinational projects. Furthermore, the Committee of Officials of the Lusaka-based Multinational Programming and Operational Centre (MULPOC) supported this idea of establishing a financial institution for the subregion. Consequently, the Council of Ministers of the Lusaka MULPOC endorsed the Officials' recommendation to this effect at their meeting held in Gaborone, Botswana, in January 1980. The Ministers further decided that the ECA in close collaboration with the African Development Bank (ADB) and the African Centre for Monetary Studies (ACMS) should undertake a comprehensive study on the feasibility of having such a subregional development bank and that in undertaking this study the Secretariat should look into the possibility of expanding the East African Development Bank. The study was, therefore, undertaken by the three organizations indicated above and presented to the joint session of the fourth Meeting of the Lusaka MULPOC Council of Ministers and the second Extraordinary Conference of Ministers of Trade, Finance and Planning, held in Maseru, Kingdom of Lesotho, from 18 to 21 January 1981. As a result, the Ministers reached a consensus to the effect that the scope of the functions of the proposed bank should be widened to include the financing of trade and directed the ECA to undertake an additional study on trade financing within the subregion as an addendum to the main study. The Ministers also directed that the main study and related addendum should be submitted to a meeting of expert officials from Central Banks and Ministries of Finance of the subregion for their in-depth consideration. The study and the addendum were presented to the meeting of experts from Central Banks and Ministries of Finance held in Addis Ababa from 12 to 16 May 1981. The experts, however, were of the view that the terms of reference for the study were inadequate; and that the study was incomplete in some of its aspects. For this reason, the experts drew up new terms of reference on the basis of which a new technical study on the establishment of the proposed Bank could be carried out. Following this, the Committee of Officials of the Lusaka MULPOC adopted the new terms of reference, as ammended by them, and submitted their recommendation, in this respect, to the Resumed Session of the Enlarged Conference of Ministers of Trade, Finance and Planning of Eastern and Southern Africa held in Addis Ababa from 18 - 21 May 1981. The Council of Ministers endorsed the new terms of reference and directed that a new technical study should be undertaken and submitted for their consideration at their meeting scheduled to be held in October 1981.

2. The new terms of reference are:

(1) To review the economic situation of the Eastern and Southern African subregion with a view to highlighting the need for a subregional financial institution within the context of the PTA;

(2) To determine the financial viability of the proposed Bank if established from scratch or based on the EADB with a view to identifying the advantages and disadvantages of a new subregional Development Bank as against the advantages and disadvantages of transforming EADB into the subregional Bank, including the projected profit and loss account, balance sheet, sources and application of funds and manpower requirements over a five-year period;

(3) In determining the capital stock of the proposed Bank, the study should look into the mechanisms that will enable the member States to effectively control the Bank;

(4) To indicate the financial conditions under which the proposed Bank will operate with respect to the terms and conditions of its borrowings and lending. In this connexion, consideration should be given to the establishment of an interest subsidy fund and a concessional lending soft window in the Bank, including their cost implications to the member countries;

(5) To make an objective evaluation of the assets and liabilities of EADB with the assistance of an expert group comprising an accountant, an economist and a lawyer;

(6) To indicate the investment record of EADB over the last six years, including projects in the pipeline;

(7) To recommend on the status of the assets and liabilities of EADB in the event of its being transformed into the proposed subregional Development Bank and on the mechanisms for settling such assets and liabilities;

(8) To look into the mechanisms which would maintain the African character of the proposed Bank;

(9) Taking into account the small size of intra-subregional trade, to indicate which areas of trade could be financed by the proposed Bank, having in mind the need to establish a special fund for this purpose with a separate account; and

(10) In undertaking the study on the East African Development Bank, the experts should consult the officials of the EADB and the States presently owning the Bank.

3. In compliance with the directive of the Ministers, the new technical study has now been completed by ECA in collaboration with ADB and ACMS.

CHAPTER II

THE ECONOMIC SITUATION OF EASTERN AND SOUTHERN AFRICAN STATES

A. General Economic Characteristics

4. The eighteen independent countries of the Eastern and Southern African subregion occupy an area of about 8,265,000 square kilometres with a total population of about 126 million people and an average population density of about 15.2 persons per square kilometre which (except for the Comoros, Mauritius and Seychelles) ranges from about one person per sq. km. in Botswana to about 52 persons per sq. km. in Uganda. The population grows at a rather fast rate of about 2.7 per cent per annum. Over 80 per cent of the population of the subregion live under poor conditions in rural areas. The main source of livelihood derives from subsistence agriculture, animal raising and fishing. Unemployment and underemployment are high. The GDP and GDP per head domestic capital formation are low.

5. The economies are characterized by heavy dependence on a limited number of unprocessed or semi-processed agricultural and mineral exports to developed countries. The small and limited manufacturing sector concentrates primarily on import substitution for consumer goods, and is largely controlled and managed by foreigh companies. In the manufacturing sector the countries are generally competitive in the sense that industrial units producing the same products are established in neighbouring countries without regard to the smallness of national markets and possibilities of inter-country complementarities and trade. The result is wasteful duplication of effort and costly excess capacity.

6. Of the 25 low income countries in Africa, ten 1/ are within the Eastern and Southern African subregion; and of the 31 least developed countries in the world nine 2/ are in the subregion. Furthermore, the subregion has a proportionately high concentration of geographically disadvantaged countries; for example, seven 3/ are landlocked countries and four 4/ are island countries.

1/ Angola, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Somalia, Tanzania and Uganda.

2/ Botswana, Comoros, Ethiopia, Lesotho, Malawi, Seychelles, Somalia, Tanzania and Uganda.

3/ Botswana, Lesotho, Malawi, Swaziland, Uganda, Zambia and Zimbabwe.

4/ Comoros, Madagascar, Mauritius and Seychelles.

7. Nonetheless, the subregion has a potential for a higher rate of growth and development. It is relatively well endowed with natural resources - minerals, forests, fertile land, and fisheries resources which remain largely untapped. The exploitation of these resources would however require economic co-operation among the countries of the subregion. The dominance of the subsistence sector, the existence of small fragmented national markets, the underutilisation of resources, excessive external orientation of the economies and consequential balance of payments problems and heavy indebtedness to the industrialised countries combine to make the economic co-operation among them indispensable for the rapid and self-reliant transformation of the subregion. A major bottleneck to inter-country co-operation is lack of integrated transport and communications network. The transport and communications systems of the subregion is characterised by poor feeder and main roads, railway networks for moving goods to and from the hinterland to the ports, serious shortage of farm-to-market roads, shortage of transport vehicles and under-utilization of trunk roads and railway lines.

8. The need to co-operate and reduce dependence on developed countries has been made more urgent by the unfavourable world economic situation which has contributed largely to severe balance of payments problems especially for the non-oil developing countries. The combined current account deficits in 1973 were US$ 11 billion but following the 1973/74 sharp increases in oil prices the deficits rose to US$ 30 billion in 1974 and to US$ 38 billion in 1978. The figure jumped to US$ 50 billion, in 1979 and to an estimated US$ 80 billion in 1981. It is forecast that the deficits would be about $ 100 billion in 1982.

9. The rising deficits in the current account have been caused largely by the upward surge in the unit value of imports due to the high price of oil and manufactured goods. In addition, the unit prices of the exports of primary commodities have declined and continue to weaken as a result of the recession-weak demand in the industrial countries. The reduced earnings from exports of primary commodities have led to acute shortage of foreign exchange among the countries of the subregion. The payments balances on current account of some of the countries from 1972 to 1979 are shown in Annex I, Table 1 of this report. As shown in the table, the current account deficits of all the countries rose following the 1973/1974 oil price increases and the deep world economic recession of 1975. Botswana for which data on payment balances became available from 1975 had current account deficits of US$ 34.1 million in thet year, but went into surplus in 1976 and 1977. Swaziland also ran surpluses in its current account from 1974 to 1977. All the countries recorded huge current deficits in 1978 and 1979 except for Botswana which had a slight surplus of US$ 1.6 million in 1979. The current account deficits were partly offset by inflows of external resources such as grants and concessional loans and other forms of external borrowing. Some countries financed the bulk of their deficits by accumulating arrears and many drew down their reserves. Annex I Table 2 shows the foreign exchange position of some of the countries from 1973 to 1980. With the exception of Botswana and Swaziland, the levels of foreign exchange declined on the average over the period. The decline was very significant in 1978 for all the countries and the downward trend continued into 1980.

10. In addition to the detrimental effects of decline in foreign exchange earnings there is a serious institutional gap for the mobilisation of financial resources for domestic investment. Within the monetary sector a number of institutions do exist in practically all the countries, but their effectiveness is hampered not only by shortage of foreign exchange but also by lack of co-operation among themselves both at the national and subregional levels. Lack of entrepreneurs and indigenous skilled manpower, as well as poor preparation of projects also adversely affect the institutions. Moreover, due to the poor performance of the economies the institutions find it difficult to raise the necessary investment capital from international financial institutions. When loan capital is available, the terms attached are usually very stringent. As presently structured, the institutions cannot contribute to economic co-operation. Their structural reorientation would be required in order to make them useful instruments in the mobilisation of domestic and external resources for the promotion of growth and development through collective self-reliance.

B. Nature and Potential of production sectors

(i) Agriculture

11. Agriculture is the mainstay of the economies of the subregion. The contribution of agriculture to the GDP in 1979 averaged about 32.2 per cent. It ranges from 13.9 per cent in Zimbabwe to 58.2 per cent for Uganda. The agricultural sector has two subsectors : the subsistence subsector and the commercialised subsector. As noted earlier the subsistence subsector, on which the majority of African people depend, produces staple food crops such as maize, cassava, millet, sorghum, meat and fish products. The productivity of this subsector is very low due mainly to traditional production techniques, widespread droughts, lack of fertilizers, pests and low levels of investment. The growth rates achieved in this subsector since political independence lag behind the rates of population growth, hence a large proportion of foreign exchange earnings is spent on imports of food.

12. The commercialized subsector is mainly for export crops. Most of the Governments of the subregion have paid greater attention to this sector in terms of providing investments, inputs and research. This was also the case during the colonial era. The subsector produces cash crops such as coffee, cotton, tobacco, sisal, groundnuts, sugar, bananas, wood and wood pulp etc. This concentration of effort on cash crops has meant that large areas of fertile land as well as modern techniques have been devoted to export crops. This had had the effect of distorting the pattern of production. A large proportion of resources are devoted to producing goods and services for external markets. Thus the countries produce what they do not need and import what they need for domestic consumption.

13. The distortion in the pattern of agricultural production may be illustrated by comparing self-sufficiency ratios (SSR) in the two subsectors. While the subregion's Self-Sufficiency Ratio for cereals declined from 0.96 in 1975 to 0.82 in 1979 the Ratio for coffee rose from 4.1 in 1975 to 4.2 in 1979. For tea the Ratio was 7.4 in 1975 and 7.7. in 1979. The Ratio for maize declined from 1.01 in 1975 to 0.88 in 1979. Thus the production of two major staple food crops has been declining while that of the two export crops mentioned has been increasing. This example seems to be typical of trends in the production of food and export crops in the subregion.

14. The following table on production and marketing of cotton provides a good example of the externally oriented structure of the commercial agricultural sector.

Table 1 : Cotton Picture within Eastern and Southern Africa

('000 metric tons)

	1969/71	1974/76	1980	1985	1990
Cotton used in domestic factories	156.6	217.7	318.0	387.0	460.2
Cotton Demand	157.8	225.2	262.7	331.7	404.9
Cotton Import	6.8	7.4	5.1	14.6	20.6
Cotton Export	636.0	355.5	396.8	441.4	605.6
Cotton Balnnce of Trade	629.2	348.1	391.7	426.8	584.9
Cotton Production	787.1	573.1	654.4	758.5	989.9
SSR Production Demand	4.9879	2.5457	2.4911	2.2867	2.4448

Source : ECA/FAO Agriculture Division Computer Printout 1980.

15. From the Table it is clear that the subregion exports, on the average, over 60 per cent of its cotton production to external markets and uses less than 36 per cent for domestic production, yet the emerging trend is that more and more synthetic raw materials are being imported for the textile industries within the subregion. Intra-subregional trade is extremely small in agricultural products, this is partly due to the fact that the colonial powers hardly paid any attention to the possibilities of inter-country specialization and exchange, but were generally concerned with the production for the metropolitan centres. For example, there is hardly any trade of significance between Zambia and Angola, despite the fact that for decades Zambia's outlet to the coast has been the railway traversing Angola.

16. It should also be noted that the commercialised subsector concentrates on one or two commodities that play a preponderant role in the subregional economies. The individual country magnitudes of dependence on single or two cash crops can be appreciated when it is observed that sugar alone accounts for 84 per cent of exports of Mauritius, coffee accounts for 75 per cent of Uganda's export trade and four commodities, namely : coffee, hides and skins, cereals and oilseeds account for about 84 per cent of Ethiopian export earnings.

17. The depressing state of food production and excessive dependence on a limited number of export crops for foreign exchange earnings, presents a challenge to the countries of the subregion. The subregion has the potential to achieve self-sufficiency in cereal production because of the very diverse weather conditions. Although one cannot be precise as what each country might produce available data suggest that Zambia, Zimbabwe, Kenya, malawi, possibly Ethiopia, Angola and Mozambique can become major maize producers and exporters within the subregion. Similarly, Malawi and Swaziland appear best situated for rice production and perhaps Mozambique, Angola and Kenya can become more important suppliers of rice within the subregion. Better prospects exist in Uganda and Madagascar for the production of roots, tubers and plantains. The subregion has a great potential for livestock production, but more studies need to be done on the integration of livestock development, paying particular attention to ranch and range management and feedstuffs. Oil seeds and their by-products have good prospects in Mozambique (coconut), Angola (sunflowers, palm Kernel), Tanzania (cottonseed, sunflower), Ethiopia (rapeseed), Malawi (cottonseed, groundnut). These are but a few examples to highlight the agricultural potential of the subregion.

18. Agricultural inputs can also be produced within the subregion. The subregion has a potential for self-sufficiency in fertilizers, such as phosphate and nitrogenous fertilizers. The phosphate deposit reserves within the subregion are estimated at 311.4 billion metric tons. The subregion consumed about 38.5 million metric tons of fertilizers in 1977 out of which only 30 per cent was met from production within the subregion; the rest, 70 per cent, was met by import from outside the areas, yet the basic ingredients for their manufacture are abundantly available within the area. The subregion is also relatively well endowed with several rivers and lakes which could be harnessed through multinational and multipurpose projects for irrigation, hydropower, reafforestation and fisheries development.

19. Inadequate agricultural progress holds back the whole process of economic transformation. In the early stages of development the over-all rate of growth will depend primarily on what happens to agriculture. The object of agricultural development should not only be to increase output for export but should also be to achieve self-sufficiency in food, provide employment as well as inputs and an expanding market for the industrial sector. The stagnation of agriculture in Eastern and Southern Africa is a hindrance to industrialisation.

(ii) Industry

20. The manufacturing sector is small in both absolute terms and in terms of its contribution to the Gross Domestic Product. Its development and growth at the national level is limited by the smallness of national markets and low purchasing power. It will be observed from Annex I, table 3 that manufacturing as a percentage of Gross Domestic Product was 9.2 and 10.8 per cent in 1970 and 1979 respectively and that the growth of the commodity sector of 2.2 per cent per annum in the 1970s was less than the population growth rate of 2.7 per cent during the same period. The growth rates of the subregional manufacturing subsector of 4.5 per cent (1970/75), 3 per cent (1975/79) and 3.9 per cent (1970/79) are far below those of developing Africa which registered 5.7 per cent (1970/75), 7.5 per cent (1975/79) and 6.5 per cent (1970/79). The structural relations between the manufacturing subsector and the agricultural sector in the subregion show very weak and stagnant relationships when measured in terms of the manufacturing elasticity to agriculture. The elasticities of 1.88 in 1970/75, 1.98 in 1975/79 and 1.95 in 1970/79 compare very unfavourably with those of developing Africa of 3.35, 4.69 and 3.82 for the period under review. These data demonstrate the low levels of sectoral integration and complementarity both at the national and subregional levels and in particular the weaknesses of structural linkages with the commodity sectors.

21. As noted earlier, there is very limited processing of agricultural and mineral raw materials; the sector concentrates on import substitution and is heavily dependent on imports of capital and intermediate goods. Moreover, because of the small numbers of entrepreneurs, lack of indigenous technology and shortage of skilled manpower, manufacturing units are largely subsidiaries of foreign companies. Hence industrialization depends mainly on foreign capital and technology, and value added goes mainly to overseas investors. Interest, amortization and other transfers go abroad to those who provide capital and technology. Depreciation allowances go abroad to purchase new machines and spare parts. A high proportion of salaries also goes abroad to pay for imported skills.

22. Dependence on imported equipment and skills forces the countries to base their national import substitution programmes on capital-intensive technology. The job-creating effect of this technology is small and the goods produced reflect mainly the demand pattern for imports by the elite (the middle and upper-middle classes), which has the money to purchase imported consumer goods and is more exposed to the demonstration effect of developed countries.

23. In addition, capital-intensive industries in small African markets operate below capacity. Excess capacity combined with high freight rates and high construction and installation costs, create a high-cost industrial structure whose products are not primarily geared to the demand structure of the majority of the African population in the rural areas.

24. Therefore, the industrialisation programmes of the countries result in a costly non-agricultural sector, which has little feedback on agriculture and which is neither job-creating nor foreign exchange earning at a sufficient pace relative to the employment and foreign exchange requirements of the countries.

25. It is imperative that the countries of the subregion should embark on a broad-based industrial development strategy giving priority to basic industries with backward and forward linkages. The subregion has the potential for the creation of strategic industries. It is richly endowed with mineral resources. The known mineral resources include: copper, iron, coal, manganese, chromite, nickel, phosphates, soda ash, bauxite, cement, uranium, natural gas and oil.

26. Thus there is an enormous potential for the establishment of joint industrial complexes based on mineral resources. One such industry for which the subregion has all the required ingredients is the iron and steel complex. Iron ore reserves are estimated to be over 105 billion metric tons and coal reserves estimated at over 57 billion metric tons. In addition, there are sufficient deposits of ferroalloys such as manganese, nickel and chrome required for the production of iron and steel products. The subregion also has the potential to produce chemicals, fertilizers and pesticides.

27. The viability of the various industrial complexes will depend on economic co-operation and collaboration in the exploitation of mineral resources. The industrialization of the subregion is the responsibility of the countries of the area, and it should not be expected that much assistance will be obtained from outside. Indeed, the industrialization of the developing African countries cannot depend on developed countries whose main interest in Africa is the exploitation of raw materials for their industries. In this connection, a recent study has revealed that a one-third fall in the supply of chrome to the industry of one Western European country would within a few weeks cut by a quarter that country's industrial production and cost the country seven million jobs.

C. Gross domestic savings and gross capital formation

28. Self-reliance and development will remain slogans as long as domestic resources are not fully mobilized for the development of inward-oriented production capacities in agriculture and industry. The countries of the subregion need to generate savings and mobilise domestic resources so that they can finance an increasing proportion of their development. Thus far the status of domestic savings and capital formation is far from satisfactory.

29. As indicated in Annex I, table 3, domestic savings growth rates for the subregion were -0.1 per cent in 1970/75, and shot up to 12.3 per cent in 1975/79 giving an average growth rate of 5.3 per cent for the period 1970/79. These growth rates compare favourably with those of developing Africa of 1.5 per cent in 1970/75 and 12.8 per cent in 1975/79 including the period average of 6.4 per cent in 1970/79. This situation is further indicated by savings-GDP ratios which are slightly above those of developing Africa. Gross domestic savings by country for the subregion are given in Annex I, table 4. It will be noted that there were wide differences in domestic savings growth rates for the individual countries. Domestic savings growth rates for ten countries declined between 1970 and 1979. One country in this group had negative domestic savings throughout the period, while another had negative savings in 1974 and from 1976 to 1979. Most of these countries are the least developed of the subregion. The other eight countries increased their savings. The savings of one country in this group were particularly high.

30. The growth rates of gross fixed capital formation for most countries as indicated in Annex I, table 5, show a downward trend corresponding more or less with a few exception, to the decline in domestic savings analysed above. The rates of growth of gross fixed capital formation for thirteen countries of the subregion declined between

1970 and 1979. Included in this group of countries are a few[5/] which had substantial domestic savings during the period covered. Some countries which experienced declines in their domestic savings increased their gross fixed capital formation during the period, indicating that their domestic investments were financed largely by inflows of external resources.

31. Investment as a percentage of GDP was on the average 17.9 per cent, 15.5 per cent and 15.3 per cent in 1970, 1975 and 1979 respectively. That of developing Africa was 18.3 per cent, 26.7 per cent and 26.6 per cent during the same years. Individual country growth rates of capital formation for the period 1970-1979 are contained in Annex I, table 5.

32. The generally low level of savings and shortage of foreign exchange have resulted in heavy dependence on external sources of capital. An analysis of sources of external finance and the external debt position of the countries of the subregion shows the financial burden with which the countries are faced.

D. Sources of external finance and external debt

(i) Sources of external finance

33. Sources of external finance to developing countries are bilateral sources, multilateral sources, financial markets and foreign direct investments. Of these, bilateral and multilateral sources are the most important in respect of external finance for economic development in the subregion. The two constitute the main sources of official development assistance (ODA) usually given as grants or concessional loans or both. As discussed earlier most of the countries of the subregion are least developed and low-income developing countries and as such depend heavily on inflows of concessional finance for their domestic investments. International financial markets are increasingly becoming important because concessional funds have not been coming into the subregion in the required quantities while foreign direct investments have declined or stagnated in most developing countries.

34. Development Assistance Committee (DAC) countries[6/] are the main sources of bilateral official development assistance (ODA). Although there have been some overall increases in absolute amounts of aid, the share of official development assistance in DAC member countries' GNP has been declining since 1970s. The DAC countries' share declined from 0.34 per cent in 1971 to 0.30 per cent in 1977[7/]. In 1979, this share increased slightly to 0.35 per cent which was still well below the internationally agreed target of 0.7 per cent of the DAC member countries' GNP.

5/ These countries could not increase their gross fixed capital formation in line with the increase in their domestic savings because of shortages of foreign exchange.

6/ Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom and United States.

7/ See UNCTAD: Transfer of Real Resources to Developing Countries, TD/B/711, 21 August 1978.

35. The other sources of bilateral aid are from individual OPEC donors. ODA from OPEC countries is much larger but nevertheless the level has been declining recently. In 1976 OPEC countries made available about 2.27 per cent of their GNP to development aid. This rate declined to 1.28 per cent in 1979. Besides the observable decline in the ratio of ODA to GNP of donors, the former has also been declining in real terms.

36. The principal sources of multilateral funds are mainly the International Monetary Fund (IMF), the World Bank, International Development Association (IDA), the African Development Bank (ADB), the African Development Fund (ADF), OPEC Fund, Arab Bank for Economic Development in Africa (BADEA), Special Arab Aid Fund for Africa (SAAFA), International Fund for Agricultural Development (IFAD) and UNDP. The net resource flows into the subregion during the period 1976-1979 are shown in table 2.

Table 2. Net Resource Inflows into the Subregion, 1976-1979 (in million dollar)

	1976	1977	1978	1979 P/
Net Lending from Mult. Organizations 1/	357.6	358.4	449.7	459.6
Net Lending from Governments 1/	356.9	344.5	429.7	634.6
Grants and other official 2/	541.8	858.9	1,038.3	1,358.3
Total Net Flows 2/	1,734.9	2,086.5	2,190.9	3,082.2

P/ Preliminary data.

Sources: 1/ World Bank Debt Tables.

2/ O.E.C.D. Data.

(ii) External debt situation and problems of debt servicing

37. As a result of the near stagnation of official development assistance (ODA), there has been a widespread shift from official to private sources of credit (including suppliers credit) for non-oil-producing developing countries. This has involved shorter average maturities and considerably higher interest rates than those typical of loans from foreign government agencies and international lending institutions. Usually loans from official sources are made on highly concessional terms. In the case of private loans, the high interest rates of recent years have been fully reflected in new loans. In addition, most private loans are subject to floating interest rates that respond quickly to changes in the London inter-bank offer rate (LIBOR) to which they are linked.

38. Due to the shortening of average maturities, the amortization component of annual debt service payments has risen very sharply since the mid-1970s. The impact of the changing composition of external debt has been very serious for some countries of the subregion that have been suffering from critical shortfalls in foreign exchange earnings.

Although there have been general increases in external borrowing by all the countries of the subregion, the least developed among them have not been able to increase their external debt to a large extent because of their low credit worthiness. The inability of these countries to borrow sufficient funds was also a reason for their poor growth performance as described earlier. The outstanding external public debt and debt service payments of some of the countries of the subregion from 1973 to 1979 are shown in Annex I, table 6. As shown in the table, the indebtedness of all the countries increased yearly throughout the period covered, except for that of Swaziland which declined slightly in 1974 and that of Botswana which declined in 1978. The outstanding External Public Debt and Debt Service Payments of some countries of the subregion are shown in Annex I, table 6.

CHAPTER III

THE NEED FOR A SUBREGIONAL TRADE AND DEVELOPMENT BANK

Introduction

39. The description and analysis of economic characteristics and structures given in Chapter II above, not only highlight the economic problems of the subregion, but also reveal that there are a number of conspicuous unfulfilled needs as well as opportunities for economic co-operation and development among the Eastern and Southern African countries. It is also clear from the analysis that the economies of the countries of the subregion face a number of constraints arising, inter alia, from deficits in the balances of payments, heavy external debts, meagre foreign exchange reserves, limited domestic savings and substantial resource gaps; the alleviation of which requires the formulation of appropriate policy measures. It is in this context that the proposed Treaty for the establishment of a Preferential Trade Area for Eastern and Southern African States calls for the establishment of appropriate instruments and institutions for promoting co-operation in various fields of economic activity, including financial and monetary affairs. It is envisaged that the institutions proposed will be instruments for facilitating joint action in the identification and implementation of subregional programmes and projects.

40. In this connection, it should be emphasized that a basic requirement of such instutions is that, in addition to facilitating co-operation arrangements in key sectors they should enhance national capacity rather than limit national decision-making and stifle national initiatives.

41. In the area of finance, a possible instrument which could be established is a Subregional Trade and Development Bank. As already noted, one of the constraints to the accelerated economic transformation of the countries of the subregion is inadequacy of domestic savings and foreign exchange. If adequate resources could be mobilized and effectively used, it could be possible to exploit the substantial resources that have, as yet, been untapped; for the creation of multinational basic production units, a Trade and Development Bank would be an appropriate instrument for this purpose. The resources mobilized through the proposed Bank would be used for the establishment of jointly owned basic engineering and chemical industries, industries for the processing of agricultural raw materials and industries for the production of transport and communications equipment. The Bank would in addition be a source of finance for promoting intra-subregional trade. It would also provide a useful institutional framework for joint action by the countries in negotiations with international capital markets and multinational financing institutions. Moreover, the Bank, which would act autonomously in the processing and approval of loans and other general operational activities, would be in a better position than national development banks to take decisions in the interests of all countries involved rather than in

the interests of national governments. As a multinational institution, it would also be in a better position to act, in its field of competence, as an honest broker among participating countries in negotiations on priority projects.

42. Thus, the justification for the proposed Bank is based on the need for a subregional financing institution which would:

(A) Fill the gap in existing financial structures in the countries of the subregion.

(B) Contribute towards filling the gap between available resources and the resources required for the implementation of critical multinational projects.

(C) Co-operate with the ADB by providing a retail outlet of the ADB in the subregion.

(D) Provide a conduit for resources from intra-regional multinational financing institutions for the implementation of multinational projects.

A. Institutional gap

(i) Problems in Development Financing

43. As shown in Chapter II, the inflows of ODA and concessional loans into the countries of the subregion in the 1970s fell far short of the development needs of the countries of the subregion. Financial flows from existing international finance institutions such as the World Bank, IDA, ADB and ADF have also been inadequate. As a result of this some countries have had to resort to borrowings from the international financial markets which are not suitable sources of medium- and long-term borrowings for most countries of the subregion because of the high rate of interest charged and the shorter maturities of loans. The least developed countries, which are at the bottom of the development pyramid, have found access to the international financial markets more difficult than other member States of the subregion and those which have been able to use these markets have had to pay the penalty of premium interest rates.

44. Given the difficulty of access to international financial markets, the short-term nature of loans and high interest rates, the mobilization of financial resources from abroad on reasonable terms and conditions is of crucial importance to the subregion. A viable way of doing so would be through subregional development finance institutions which are a proven technique for mobilization of resources. Through this mechanism the establishment of shareholder relations

with other financial institutions would be facilitated and there would be the opportunity to receive loans from them for specific projects.

45. At present, there is no subregional development bank catering for all the 18 countries of the subregion (except the present EADB owned by Kenya, Tanzania and Uganda). The establishment of a subregional development bank constitutes, therefore an undertaking of dire necessity and urgency.

(ii) Problems of Trade Financing

46. The countries of the subregion lack effective export promotion strategy and adequate institutional support for export credit mechanisms. There are no specialized mechanisms at national level to provide pre- and post-shipment financing of credits in most of the member States. There are also no export credit guarantee and insurance schemes (except in Zimbabwe) to enable traditional and non-traditional exporters gain access to channels of credit. Some countries the subregion are however becoming increasingly aware of the importance of these mechanisms in the promotion of their exports. For example, Kenya and Mauritius are in the process of establishing export credit insurance schemes.

47. Commercial banks in the countries of the subregion are the main source of short-term export credit facilities ranging from 30 to 90 days and sometimes up to 180 days. These facilities are easily available mainly for traditional exports directed towards developed countries. Besides, the commercial banks are to a large extent, foreign-owned, though sometimes registered locally, and in some countries no national banks exist. The interests of many of these banks are, therefore, not necessarily the same as, if not in conflict, with the interests of the host countries in so far as the promotion of intra-subregional trade is concerned. Moreover, shortage of foreign exchange in many countries of the subregion places effective constraints on the lending abilities of commercial banks. As a result, a whole range of restrictions exist in many countries of the subregion in relation to imports.

48. Most countries of the subregion are net importers of capital and it is very difficult, at the national level, to grant export credits which would result in export of capital and outflow of real resources. Hence, the importance of introducing the proposed facilities in order to remedy such situations.

49. Financing of exports of consumer durables and capital goods requires special financial experience, procedures and terms. Faced with this situation new suppliers from developing countries wishing to enter this highly competitive market or look for new export outlets for their products, might be obliged to offer financing arrangements that are similar to those provided by their competitors to prospective buyers.

50. The provision of medium- and long-term export credit delays the inflow of foreign-exchange adversely, affects the balance of payments and reduces the ability of national credit systems to offer export credit finance. The alternative in the absence of subregional or regional trade financing mechanisms is to discount the export bills in the international capital markets. This method is not very satisfactory because the discounting of export bills in the international capital markets normally takes place only at commercial rates based on the London inter-bank offered rate (LIBOR). This will make the financing more expensive. Besides, it is difficult for some countries to gain access to the international capital markets without adequate guarantees.

51. The exports of capital goods and manufactures from many countries of the subregion are not at present large enough to permit the establishment of self-supporting export credit financing and export credit guarantee and insurance scheme at the national level. In the absence of these facilities exporters find it difficult to obtain export credits from commercial banks and other financing institutions.

52. Another problem is availability of reliable credit information with regard to foreign importers. In the developed countries such services are provided by commercial banks, credit intelligence bureaus, export promotion centres, commercial attaches, embassies, etc. The availability of credit information is very important for the promotion of intra-subregional trade, and yet in most countries of the subregion, there is hardly any institution providing such services.

53. Lack of adequate financial resources is one of the problems faced by many of the countries of the subregion; moreover, many competing claims are made on the limited resources available. An export sector which involves considerable risks is therefore unable to obtain adequate financial resources from commercial banks and other financial institutions.

54. A Trade and Development Bank will therefore fill an important gap by providing a specialized mechanism for the promotion of intra-subregional trade through the provision of credit facilities on reasonable terms, export credit guarantees and export credit insurance facilities, as well as through collection and dissemination of relevant information.

B. Resource gap

55. Ideally, the estimates of the resource gap should be based on data contained in the development plans prepared by the countries. It was, however, not possible, for various reasons, to adopt this method in the preparation of this study. There are other methods which were considered such as "Investment - Savings" approach and the "Desirable-path assumption". It was decided that for the purpose of the study the "Derivations based on IBRD projections" would be the most relevant.1/

56. The World Bank classifies developing countries on the basis of their income per capita levels viz. Group I (lower income) countries consist of countries with per capita income levels of below \$265; Group II (lower middle income) countries having per capita income levels between \$265 and \$520; Group III (intermediate middle income) countries having per capita income between \$521 and \$1,075; and Group IV (upper middle income) countries having between \$1,076 and \$2,000. Seven of the countries in the subregion fall within Group I, another seven fall within Group II, and four fall within Group III. 2/

57. Between 1978 and 1985, the World Bank projects that national income for Group I countries would grow at a rate of 4.3 per cent per annum, and for Groups II and III by 6.6 and 7.1 per cent respectively. Over the same period the investment coefficients are estimated for Groups I, II and III at 13.8, 23.7 and 23.4 per cent of national income respectively. For the purpose of deriving the resource gap for the subregion for the period 1982 to 1991, the same assumptions were made. The computations of income and investments for the three groups from 1982 to 1991 are shown in Annex II, table I. On the basis of the total income derived for the three groups the external gap is estimated at \$18,429 billion (see footnote of Annex II, Table I).

58. The proposed bank is not expected to finance the whole of the projected resource gap. This then raises the question of what proportion of the resource gap should the bank finance. The operations of selected Regional Development Banks3/ and the World Bank were used as a guide. Annex II, Table II gives estimates of

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1/ The derivation of the resource gap based on the World Bank projections is a second best but it shows the magnitude of the external resources required in the subregion.

2/ IBRD: Prospects for Developing Countries, 1978-1985.

3/ Data on Subregional Development Banks were not available.

World Bank lending to Africa, and lending estimates of the Asian Development Bank (ASDB), the Inter-American Bank (IDB), and the African Development Bank (ADB) within their respective regions. The size of their financing varied widely from about $3.5 _per capita_ for the World Bank in 1976 to $0.30 _per capita_ for ADB. Those for IDB and ASDB were $2.43 and $0.92 _per capita_ respectively in the same year.

59. It is not expected that the proposed subregional Bank may attain the lending rates of the World Bank, the Inter-American Bank and the Asian Development Bank. However, contingent on the resources that will be available (see Chapter V) it can be assumed that it will achieve a _per capita_ lending rate of $0.50.4/ On the basis of this assumption, its total lending during the period 1982-1991 could be of the order of US$800 million. The figures are given in Annex II, Table III. At this level the Bank would cover about 4.3 per cent of the projected resource gap.

C. Co-operation with the African Development Bank

60. The proposed Bank could co-operate very closely with the African Development Bank in a number of ways. The ADB could participate in the capital stock of the proposed Bank and hence the latter could thereby increase its resources and make use of the experience of the ADB which would participate in the policy-decision making of the subregional Bank.

61. Another area of co-operation between the two institutions could be co-financing. The two banks could participate in joint financing of larger-scale projects whether these be national or multinational. Co-financing might, in some cases, take the form of provision of lines of credit by ADB for on-lending by the proposed Bank to member countries for financing smaller-scale projects. Another form of co-financing could be programme lending by ADB to the subregional institution. The proposed Bank could also retail the lines of credit received by granting loans to countries for project financing, thus becoming a retail outlet of the ADB. Other areas of co-operation could be financing and execution of pre-investment studies, and the provision of technical assistance to member countries.

62. Co-operation in the above areas would help substantially in minimizing project administration costs; and in the use of appropriate levels of technology and consequently in the achievement of reasonable amounts of capital savings in the design and implementation of projects.

4/ The level of financing of $0.50 _per capita_ suggested for the Bank is higher than ADB's level of financing of $0.31 shown in table 2 of annex II.

CHAPTER IV

THE OBJECTIVES AND FUNCTIONS OF THE PROPOSED TRADE AND DEVELOPMENT BANK

63. The following suggestions on the objectives and functions of the proposed Bank are based on the economic problems of the countries of the subregion identified in Chapter II, and on the rationale for a subregional Bank discussed in Chapter III.

64. A. Objectives

(i) Promote the general economic and social development of subregional member States taking into account the prevailing economic, social and other related conditions within the Preferential Trade Area;

(ii) Promote the investment of public and private capital for development purposes;

(iii) Promote the establishment of national development finance institutions;

(iv) Stimulate and supplement the activities of national development financial institutions within the subregion;

(v) Develop and stimulate trade between and among the countries of the subregion,

(vi) Support and supplement the activities of national financial institutions which cater for the needs of exporters and export-oriented industries where they exist and to act as a catalyst in providing incentives for the creation of such institutions where they do not exist.

(vii) Mobilize resources from domestic and external sources for the operations of the Bank.

B. Functions

65. To achieve the above objectives, the following functions are suggested:

(a) Development finance

(i) Finance projects and programmes relating to the economic and social development of its subregional members giving special priority to:

(a) finance projects or programmes which by their nature or scope concern more than one subregional member States;

(b) finance projects or programmes designed to make the economies of the subregional member States increasingly complementary to each other.

(ii) Co-operate with other institutions and organizations, public or private, national or international which are interested in the development of subregional member States;

(iii) Mobilize funds from domestic and external sources for carrying out the Bank's activities;

(iv) Supplement the activities of national development institutions by providing lines of credits and technical assistance;

(v) Strengthen national development financial institutions in the subregional member States by participating in their equity and providing technical assistance;

(vi) Assist in project formulation and undertake pre-feasibility and feasibility studies and provide technical assistance for the preparation, financing and implementation of projects;

(vii) Provide training in all fields of development banking for the benefit of personnel of national development finance institutions;

(viii) Undertake such other activities and provide such other services as may advance the purposes for which the Bank has been established.

(b) Trade financing

(i) Provide financial assistance in respect of trade within the Preferential Trade Area through the granting of necessary credits and guarantees;

(ii) Grant loans for and invest in enterprises that would promote trade within PTA;

(iii) Accept, discount, rediscount and endorse the trade bills of commercial banks, central and development banks and other national financial institutions of the member States for the purpose of promoting trade within PTA;

(iv) Assist in the establishment of export development banks and export credit guarantee and insurance facilities within the member States and participate in the equity capital of national export credit guarantee and insurance institutions and provide these institutions with technical assistance as necessary;

(v) Assist enterprises in the member States, particularly the small- and medium-sized enterprises engaged in export trade within the PTA, in the preparation of projects for financial assistance from the bank;

(vi) Provide export credit guarantee facilities;

(vii) Issue guarantees such as bid bonds, advance payments guarantees, performance guarantees etc., to importers on behalf of exporters for the purpose of subregional trade;

(viii) Provide information on a regular basis to the export sector about export incentives and procedures and about prevailing export financing facilities at national and subregional levels;

(ix) Provide information on the credit standing of the buyers from the member States;

(x) Train personnel of national financial institutions of the member States in the field of export financing;

(xi) Mobilize resources for the financing of the above from subregional, regional, multilateral and bilateral sources;

(xii) Undertake such other activities and provide such other services as may be necessary in fulfilment of its objectives in the field of trade financing.

CHAPTER V

THE RESOURCES OF THE PROPOSED SUBREGIONAL BANK

A. Total capital stock of the Bank

66. The total capital stock of any regional development Bank is determined by the operation costs of the Bank, its expected volume of business, as well as the ability of the member States to subscribe to such capital stock. The capital stock of the Bank must at least generate enough earnings to cover the operating costs. It must enable the Bank to achieve an earning capacity sufficient to maintain the administration of the Bank and to yield a reasonable surplus for use by the Bank either to set aside as reserves, to increase its services to the subregion, or to distribute to its owners.

67. On the other hand, the upper limit of the capital required is determined by the projects the Bank is expected to undertake. The actual volume of business for the development Bank would depend on what the countries in the subregion could contribute and the amount of funds that might be obtained from non-members as well as the impact member countries would want the Bank to have in the subregion. There is no indisputable way of estimating the required capital stock of the Bank. The judgement may however be helped by considering the relationship between the implied projected lending of the Bank and other variables such as the projected resource gap, total population, total gross domestic product, and total investments for the subregion[1]. Taking these relationships into consideration a volume of lending of $800 million in real terms would appear to be appropriate for the proposed subregional development Bank over the next ten-year period[2].

68. The proposed Bank would therefore require at its disposal $800 million in equity and borrowed funds. Assuming a debt-equity ratio of 2:1, this would mean

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1/ It may also be useful to compare the projected lending by the subregional development Bank to the lending by other multinational organizations in the subregion (see Section on Resource gap).

2/ Detailed explanation to the choice of $800 million as the appropriate level of lending for the bank over the next ten-year period is given in section on resource gap. Reasons for choosing a ten-year period frame for calculating the level of lending is also given in the Section.

that the paid-in capital must be about $267 million[3]. Since the development bank borrows mainly against callable capital, the ratio of callable to paid-in capital may also be taken as 2:1. The breakdown of recommended capital allocations are shown in Annex III Table 1. Thus the authorized capital stock of the bank should be $800 million with $267 million (or a third of the authorised capital) paid-in.

Capital allocation to subregional members

69. The authorized capital stock of the proposed Bank may be allocated to both subregional member States and non-subregional member States and institutions. Opening up the capital stock subscriptions to non-subregional members would have the advantage of reducing the burden that the operation of the Bank could impose on the subregional members but it would also reduce their control over the activities of the Bank. In order to retain control, subregional member States should subscribe the majority of the authorized capital stock, at least 51 per cent. In this part of the study we shall look at the various principles on the basis of which the minimum amount of US$408 million (or 51 per cent of the capital stock previously suggested) may be allocated to the subregional member States[4]

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[3] It is assumed that initially "equity" would consist basically of paid-in capital. A high debt-equity ratio would lower members contributions to Bank capital stock. However, the Bank would need to borrow in the capital markets and a low debt-equity ratio would offer some assurance of security to creditors. Creditors would normally like to have a low debt-equity ratio and some, like the International Finance Corporation, have imposed debt-equity ratios ranging from 3 to 4:1 on the development banks in which they have invested.

Good financial judgement must, however, guide the choice of the debt-equity ratio. To choose a reasonable debt-equity ratio we may assume that the bank might be able to borrow mainly from the World Bank, ADB and other concessional sources at an average interest of about 9% but the cost of equity capital is essentially zero. Its operating costs may also be assumed to be 6% of the value of lending operations, considering that the operating costs at the EADB and the ADB are respectively 12% and 4%. A reasonable interest that the bank might also charge on its loans could be assumed to be as 12%. If the bank should break even then its costs (i.e. cost of borrowed funds plus operating expenses) must equal its stream of income from its loans. Let the value of equity be represented as X and of borrowed funds as Y. Then

$$\frac{9Y}{100} + \frac{6}{100}(X + Y) = \frac{12}{100}(X + Y)$$
$$Y = 2X$$

Thus, for the bank to break even the debt-equity ratio cannot exceed 2:1.

[4] 51% is suggested as the appropriate portion which should be subscribed by member States in order to minimize the burden of subscription payment while still maintaining control of the Bank. However, the principle of capital allocation to member countries should be the same if a different proportion of the capital stock is subscribed by the subregional members.

70. Basically, there are three principles on the basis of which the desired capital stock may be allocated to subregional member countries, viz: equal assessment, progressive assessment or proportional assessment. Allocating the capital stock equally would have the advantage of simplicity. However, such an allocation would be highly inequitable in respect of the lower income countries and, moreover, would also result in the allocation of small amounts to countries that could afford to pay more. Equal allocations would be more appropriate in regions where income differences between countries are not significant[5], but this is not the case in Eastern and Southern Africa. Allocating the capital progressively would also not be appropriate; progressive assessment[6] is more relevant in situations where income distribution is highly uneven. Proportional assessment appears to be the most appropriate principle for Bank capital stock allocation in this respect. According to this principle subscriptions by member States would be proportional to their ability to pay, as measured by various economic indicators such as gross national income, income per capita, exports, foreign exchange reserves, the magnitude and fluctuations of the balance of payments positions, and tax revenues. Proportional assessment has been applied in respect of contributions to various international organizations, but the economic indicators selected and the formula used for measuring capacity to pay have differed among the various organizations.

71. We examined the formulae for subscriptions used by a number of international development finance institutions and came to the conclusion that the formula used by the ADB would be more relevant for the proposed subregional trade and development bank. However as noted below the ADB formula as such would have to be modified in the light of economic conditions prevailing in the subregion.

72. <u>Allocation according to ADB subscriptions:</u> Since the IMF formula was devised in 1944, no new thinking seems to have gone into the problem of establishing a more satisfactory formula for "capacity to pay" until 1963 when the ADB Agreement was drafted. At that time the Secretariat of the United Nations Economic Commission for Africa reconsidered the question. The UNECA study suggested that subscriptions should be based on economic capacity, within a range of US$1 million to US$30 million. This seemed to avoid the consideration of the "need for use of resources" which was integral to the IMF regime but not relevant in the context of the ADB. The UNECA study concluded that national income was the best yardstick for measuring economic capacity. However, because of the existence of a large non-monetary sector in African economies, the national income figures were associated with export and tax revenue figures. The formula finally recommended by the UNECA was based on 65% of gross domestic product, 15% of tax revenues, and 20% on exports of prospective members limited by the range of $1 million to $30 million. The UNECA formula was therefore found to be acceptable for allocating subscriptions of the ADB to the potential member African States.

5/ The present East African Development Bank has equal subscriptions by the three members. This was possible for several reasons including the fact that income differences between the countries were not highly pronounced, particularly at the time of capital stock subscription.

6/ According to income level.

73. If the relative position of the capital subscriptions of the countries of the subregion to the ADB is applied to the allocation of subscriptions to the proposed Bank; results are shown in Annex III, Table 2 of this report.

74. <u>Allocation according to a modified ADB formula:</u> The ADB formula which may be relevant for allocation of capital subscriptions to a subregional development Bank also takes into account the capacity to pay. However, the definition of the capacity to pay and consequently the formula used were made suitable to the data available and the nature of African economies at the time of the creation of ADB. For the purpose of the proposed Bank the formula may be modified and two modifications appear appropriate. First, the formula was devised at a time when large parts of the economies of African States were non-monetized. Thus, the gross domestic product figures were considered unreliable and therefore, had to be supplemented with export and tax revenue data. Gross domestic figures for Africa are now more accurate and therefore it would not be necessary to include both the exports and tax data. The export figures, however, could still be used as a supplement to GDP figures because they reflect the ability of a country to obtain foreign exchange, in which subscriptions must be paid. A simplified ADB formula could therefore take into account only GDP and export figures.

75. A second appropriate modification concerns the export figures that could be used. The ADB formula used gross earnings from exports of goods. However, since independence, African countries have developed service activities which are now significant sources of foreign exchange. Part of the foreign exchange earnings of a country, however, is set aside for the service of external debts, which have also become very significant since independence. The modified ADB formula should therefore use the data for gross receipts from exports of goods and services less the proportion for foreign debt service.

76. The rest of the computation as shown in Annex III Table 3 of this report follows the method suggested for the establishment of the African Development Bank[7]. First, assessable income and net exports are derived. The essence of the concept of assessable income is that any "two countries with equal population should pay in direct proportion to their population[8]. Net exports are also computed by deriving the proportion of exports of goods and services not used for debt service[9]. Basic economic indicators of the countries of the subregion are shown in Annex III Table 4.

7/ See in particular: United Nations Economic Commission for Africa: "African Development Bank: Allocation of Capital Subscriptions" mimeograph document No. E/CN.14FMAB/11, 6 June 1963.

8/ Assessable income Y may be derived as $X = Y \left(\frac{100 - P}{100}\right)$

where Y stands for gross national income and P the share of population or; in other words, the population of the country as a proportion of the total population of the 18 Eastern and Southern African Countries.

9/ Net exports may also be derived as (1-DSR). Exports of goods and Services where DSR is ratio of debt service to exports of goods and services. (DSR is Debt Service Ratio).

77. Secondly, assessable incomes and net exports are combined to derive the scale of assessment. The total of net exports of goods and services of the 18 countries of Eastern and Southern African constitutes 25% of their total assessable income. Therefore, in the modified ADB formula, assessable income is given a weight of 75% and net exports of goods and services a weight of 25%. The scale of assessment is then derived as the weighted average assessable income and net exports for each country as a proportion of the weighted average of the two indicators for the whole subregion. The computed scale of assessments and derived subscriptions to the proposed Bank are shown in Annex III, Table 3 to this report.

78. While the modified ADB formula seems to be more reasonable, it also appears reasonable that there must be minimum subscriptions for membership in the proposed Bank. Annex III, Table 5 has been computed to incorporate two different minimum subscriptions. In the first case the minimum subscription suggested is 1% of the proposed total subscription of subregional members (i.e. $4.08 million). This amount is allocated to each of the eighteen member States. The remaining amount of $334.56 million is then allocated according to the various scales of assessment. In the second case the minimum amount allocated to each member is lowered to 1/2% of the proposed total subscription of subregional members (i.e. $2.04 million). The remaining amount of $371.28 million is allocated, as before, according to the various scales of assessment. The first case results in proportionately higher payments by the smaller countries. The second method keeps the burden of the smaller countries lower without really raising by much the payments of the larger countries. It appears therefore that the more appropriate method of allocation would be that of the second case. The payments of some countries may be somewhat large. However, the allocations will not impose such a proportionately large burden of payment because the actual payments in convertible currency[10] are in smaller proportions than the total capital allocation. In other words, the differences in payments required in convertible currency are proportionately smaller than the differences in allocation of the total capital. The detailed breakdown is given in Annex III, Table 6.

79. Other possible sources of finance: It is difficult to estimate the amount of financing for the proposed subregional Bank that may be obtained from sources other than member States. Nevertheless, the Bank could approach and raise money from non-subregional countries and institutions including financial markets, which would include:

(a) Non-subregional African countries: particularly the capital-surplus oil-exporting countries;

(b) Non-African countries such as the capital-surplus oil-exporting countries and the more developed countries;

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[10] The foreign exchange portion of the paid-in capital payable by each member States would be only one sixth of their subscribed capital.

(c) African institutions: The African Development Bank;

(d) International institutions such as: International Bank for Reconstruction and Development (IBRD); International Development Association; International Finance Corporation;[11] Arab Bank for Economic Development in Africa; Consortium of Institutions from friendly countries; and European Industrial Development Bank, etc.

80. These other sources of finance may be useful to the proposed Bank in any of five ways. First, the governments and institutions may participate in the paid-in capital of the Bank. Some of these sources are already providing such support for some other development banks, including the East African Development Bank. Their participation in the EADB could be easily extended to the proposed Bank. These sources may like to increase and diversify their channels of investment and loans to African countries and the proposed Bank would therefore offer the opportunity for such diversification. The proposed Bank would be able to acquire for the subregion funds that would not have been otherwise available.

81. Secondly, besides direct capital, the governments and institutions may provide the proposed Bank with their guarantee powers by participating in its callable capital.

82. Thirdly, the proposed Bank may also float in the major capital markets bonds which may be taken up by governments and institutions. However, experience of other development banks indicates that these may not be a significant source of financing for the initial years of the operations of the Bank. The magnitude of such lending to the Bank would depend on the terms and conditions under which the bonds are offered to investors, subscription of capital and guarantees by governments and institutions, the confidence of the lenders in the quality and calibre of the people chosen to manage the Bank, the commercial soundness of the operations of that Bank, and its likely prospects for the future. Likely future price conditions would also determine the choice between debt and equity. Under inflation unless the debt is linked to something whose real value could more or less be maintained, an investor would normally prefer equity.

83. Fourthly, the governments and institutions may participate in the loans or other investments of the Bank. While this may not directly place funds at the disposal of the Bank it would assist it in financing certain large projects.

84. Fifthly, assistance from non-subregional sources could also take the form of contributions to special funds which could be managed by the proposed Bank.

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[11] IBRD cannot participate in equity of the Bank but it may lend money to the Bank for its operations or undertake joint projects with it. Member governments may also explore the possibility of raising loans from the IBRD to pay their capital subscriptions to the Bank. However IFC can participate in the equity of the Bank.

85. The above possibilities, however, need not be exclusive of each other. The governments and institutions may be persuaded to provide financial assistance to the Bank in any one or more of the five possible ways described.

86. The potential non-subregional members, particularly the developed countries, may be invited to consider their membership in the proposed Bank. A consultative committee could be created, if need be, to conduct negotiations, in this respect, with potential non-subregional members.

87. <u>Form and time of payment:</u> In order to permit the proposed Bank to have flexibili in the full use of its resources, it would be desirable that all capital subscriptions be made in convertible foreign exchange. On the other hand, payment of subscriptions in foreign exchange would impose a heavy burden on the member States. It would be appropriate, however, for the member States to pay half of the subscriptions in foreign exchange and the other half in their local currencies (see Annex III, Table 1). Non-subregional governments and institutions should, however, be requested to make all payments in convertible currencies. Non-paid-in capital, if called, should also be made in convertible currencies.

88. Full payment of subscriptions need not be made upon entry into force of the Bank's charter but the trade-off in the timing must be recognized. Initially, before the Bank has had a long enough earning record to be able to borrow, it would have to rely on paid-in subscriptions to support its operations. Thus, if payments are scheduled over a short period, this would provide the Bank with the opportunity t to undertake its operations early. Such short-spread payments may be patterned along the lines of the present charter of the EADB which requires members to pay 10% within 30 days and the remainder in three equal installments at intervals of six months thereafter. The apparent disadvantage of this type of payment schedule is the burden it may impose on the members. A wider spread payment schedule, which may, however, delay the start of operations of the bank is the one provided in the charter of the ADB. The schedule requires that 5% of the paid-in capital should be paid on or before the date of deposit of the instrument of ratification, 35% six months later, and the balance in four yearly equal installments. The disadvantage of a wider spread payment schedule becomes even greater if non-regional members do not join early. There is a strong possibility that potential non-regional members would want to observe the operations of the Bank before joining its membership. To balance the advantages and disadvantages of the EADB-type and ADB-type schedules, we w we would like to propose that 10% of the amount be paid within 30 days, another 30% be paid within six months and the remainder in three yearly equal installments.

89. <u>Ability to pay:</u> Once a payment schedule is adopted it would be necessary to urge member States to comply with the obligation to pay their subscriptions. Members' prompt payment, however, may be linked with their ability to pay what has been allocated to them. In actual fact, the question of ability to pay should not really arise for two reasons. First, the capital allocations have been made by considering the economic conditions in the various countries, and each allocation has been made in relation to those conditions. Second, all things being equal, the inflow of resources through the Bank to the member countries should be greater than what each member country would be required to contribute. In the long run then, the establishment of the Bank does not impose any real burden on the countries. Nevertheless, the question of the burden of payment or ability to pay is still relevant to the extent that there is a lag between payment of subscriptions and the inflow of resources to the countries. During the period that subscriptions are to be made there are burdens to be borne and therefore their opportunity costs may be estimated for the purpose.

90. We may measure the real burden of payments by comparing the required payments of subscriptions with some relevant receipts and payments of the countries for the years in which payments may be due. In doing so we assume that payments are made uniformly over time (or that sinking funds are set up for payments of the subscriptions) so that 40% of the required payments are made in year one (in our case, 1982); 20% in year 2 (1983); 20% in year 3 (1984) and 20% in year 4 (1985).

91. In measuring the burden of payment, only payments payable in convertible currencies as set out in Annex III, Table 6 will be taken into account. The proportion of receipts from export of goods and services to be devoted to payments of subscriptions to the capital stock of the proposed Bank by member countries will be relevant. Similarly, the proportion of the various countries' actual output that would be required to pay subscriptions to the Bank is also relevant. In Annex III, Tables 7 and 8 of this report, projected export of goods and services and GDP of member States for the period 1982 to 1985 are shown. Annex III, Table 9 shows percentages of assumed payments by member States of convertible currency subscriptions to projected exports of goods and services from 1982 to 1985. Except for Comores with a percentage of 1.37 and Lesotho with 2.13 the percentages for other member States as shown in the Table are below 1% even in the first year when the highest payment of 40 is effected. These are substantially reduced after the first year and become much smaller by the fourth year.

92. Annex III, Table 10 shows the proportion of the various member countries' convertible currency payments to their projected GDP from 1982 to 1985. These ratios as shown in Annex III, Table 10 are below 1% for all the member countries. Again the burden of payments on member States is reduced after the first year.

93. In Annex III, Table 11 estimated debt service payments of member States[12/] are shown. The ratios of their debt service payments to projected export of goods and services are shown in Annex III, Table 12. Compared with the ratios of payments of subscriptions which, as stated above, are less than 1% for many member States, the debt service ratios as shown in Annex III, Table 12 range from 3% to 39%. Thus, the payment of subscriptions by member States to the capital stock of the proposed Bank will impose relatively small burden on the member States of the Bank.

B. Trade financing fund

94. In determining the resources required for subregional trade financing, consideration should be given to the types of exports that may be financed. Three possible alternative methods may be used in assessing the resources required for the purpose. The first alternative takes account of all intra-subregional exports; the second takes account only of manufactures and capital goods and the third takes account of manufactures, capital goods and a percentage of traditional exports. Their respective implications, possible advantages and disadvantages, are set out briefly as follows:

12/ These are member States for which data are available.

(a) First alternative: Assessment of resources required for subregional trade financing

95. The traditional products which consitute a significant proportion of the exports of the countries of the subregion are exported mainly to the developed countries on the basis of cash or letters of credit. Problems in financing exports are therefore not encountered with regard to exports of such products which, may for this reason, not be covered by the subregional trade financing. According to the first alternative indicated above all intra-subregional exports should be included in determining the resources required for the trade financing facility. The total exports of the Eastern and Southern African States for the period 1974 to 1978 are given in Table 1.

96. The intra-subregional exports are estimated to account for 5 per cent[13] of the average total exports from these countries. On this basis, the subregional exports per year amounted to about US$320 million. Normally traditional exports are sold for cash or on very short-term credit basis; basic manufactures, particularly consumer goods and chemicals etc., are sold on short-term credit basis; and consumer durables, light capital and capital goods are sold on medium and long-term basis. Therefore, it has been assumed that the immediate resources required for trade financing will be about US$80 million, i.e. 25 per cent of subregional exports.

97. Moreover, in accordance with the objectives of the proposed Bank, it is also expected to provide investment and working capital for export-oriented industries, participate in the equity capital of such industries as well as in that of national export development banks, export credit guarantee facilities and various other activities in the field of trade financing which also require considerable amounts of resources. The initial resources needed to carry out the function of trade financing are estimated to be not less than US$90 million. This could gradually be expanded as resources increase. The advantage of this is that it will cover the financing of all intra-subregional exports.

(b) Second alternative

98. The second alternative is based on the assumption that the trade financing will cover only the exports of capital goods and manufactures of the member States to the subregion. The total exports of capital goods and amanufactures of the Eastern and Southern African States are shown in Table 2.

99. As indicated in the Table, the average exports of capital goods and manufactures of the subregion for the period 1974 to 1978 amounted to about US$2022 million per year. It has been estimated that the intra-subregional trade in capital goods and manufactures[14] is also 5 per cent of subregional exports of capital goods.

[13] The current intra-subregional exports of the Eastern and Southern Africa are estimated to be 4 per cent but it is anticipated that this will increase to at least 5 per cent in the near future as a result of the establishment of the PTA.

[14] SITC Classification.

Table 1

Exports of the Eastern and
Southern African States, 1974-78
(US $ Million)

1974	1975	1976	1977	1978	Total
6 576	5 580	5 912	6 842	6 936	31 846
		Average per year			6 369

Source: ECA Statistics Division

Various issues of UN Monthly Bulletin of Statistics; 1978 data estimates.

Table 2

Exports of Capital Goods and Manufactures
of Eastern and Southern African States
(In millions of US Dollars)

	1974	1975	1976	1977	1978	Total
Chemicals	56	47	65	72	63	303
Basic Manufactures	1 674	1 103	1 429	1 373	1 250	6 829
Machines, transport equipment etc.	408	536	537	466	487	2 434
Miscellaneous manufactures	88	106	109	124	119	546
Total	2 226	1 792	2 140	2 035	1 919	10 112

Source: ECA Statistics Division

100. Accordingly, the average intra-subregional trade in capital goods and manufactures is estimated at about US$100 million per year. However, it is assumed that about 60 per cent of this amount comprises consumer goods, and chemicals etc., which are sold for cash and on short-term credits. This leaves about US$40 million to be financed by the trade facility in the exports of capital goods and manufactures in the subregion. But taking into account the other financing activities, such as investment and working capital for export-oriented industries, the initial resources needed by the facility under this alternative should not be less than US$50 million. This alternative no doubt conforms with the practices in trade financing currently in force in other parts of the world (as reviewed earlier in this study). Its main disadvantage is that it does not cover all the intra-subregional exports including intra-subregional primary commodity exports which represent a very significant proportion of potential intra-PTA exports.

(c) Third alternative

101. In the third alternative, account is taken of all capital goods and manufactures, and a percentage, say 50 per cent, of the traditional exports to the subregion. On this basis, the initial resources for trade financing will be about US$60 million. By including the other activities to be undertaken under the trade financing facility the total resources required may be about US$70 million.

102. The advantage of this alternative is that besides covering all capital goods and manufactures, it also covers part of traditional exports. This alternative is recommended for consideration.

103. In view of manpower constraint, as is discussed elsewhere in this study it has been assumed that trade financing may not start until the third year of the operations of the Bank. The amount of US$70 million required under the third alternative may then be set aside from the capital stock of the Bank as the trade financing fund.

C. Special Funds

General

104. Apart from the capital funds obtained from members and from other sources, development banks in general usually receive other resources which have come to be known as special funds. A principal characteristic of these special funds is that they are used to make loans whose financial terms are softer than those applicable to loans made from ordinary capital resources. Also in contrast to capital stock, provision is usually made that special funds subscribed be fully paid-in either initially or when required for special fund operations. The rationale is that since loans to be financed with special funds are on terms which are softer than those on which development banks can, for instance, borrow from the capital markets, the device of callable capital designed to serve as a guarantee fund against borrowing may not be of much importance. Special funds also need to be replenished more frequently than increases in capital stock as special fund loans are made at longer terms, usually up to 50 years.

Establishment of special funds: timing and mechanics

105. It is believed that both hard and soft loans (concessional loans) would play an important role in the operations of the proposed Bank. This is for two main reasons: The need to:

(i) provide some concessional development financing to the least developed member States of the Bank; and

(ii) provide financing for some socio-economic infrastructure projects such as transportation, education and health to increase the impact of the Bank's intervention in member States.

106. It may be assumed that resources for special funds would not be obtained by the Bank immediately after its establishment. Therefore, if both hard and soft loans are envisaged at the outset of the operations of the Bank, then member States may consider setting aside a proportion of the paid-in equity capital of the Bank, say 10 per cent for Special Fund operations. The Asian Development Bank (AsDB) for example, made a provision which permitted its Board of Governors to set aside up to 10 per cent of the unimpaired paid-in capital for the purpose of establishing special funds. The AsDB was also given power to accept from other sources the administration of funds provided that these were designed to serve the purpose and fall within the functions of the Bank. It, however, took the AsDB between three and four years to be able to establish special funds.

107. While this option of setting aside 10 per cent of paid-in equity will not impose extra financial burden on the member States, it will however affect unfavourably the viability of the Bank during its formative years.

108. A second alternative would be for the members to subscribe up to about 10 per cent of their subscriptions to the capital stock of the Bank. This alternative does not appear feasible in view of the present difficult economic situation facing many countries in the subregion.

109. In the circumstances, the setting up of special funds may have to await the results of efforts to be made by the Bank in obtaining funds from bilateral and multilateral sources or the time the Bank could be able to accumulate enough reserves from its own resources from which to establish special funds. When the special funds are established, the Board of Governors of the Bank, in line with the usual practice, should be obliged to keep the ordinary capital resources and special funds separate from each other and to account for them separately.

D. Interest subsidy fund

110. An interest subsidy fund as a window of the proposed Bank will be used to assist the low-income member States in meeting the costs of their borrowings from the ordinary resources of the Bank. Loans from the ordinary resources of the Bank will be at conventional interest rates. Subsidy payments to eligible member States may be designed in such a way as to reduce substantially the burden of the conventional interest rates to a pre-determined level of say 3 per cent from about 9 per cent.

111. The interest subsidy fund by its very nature will have to be created by substantial grants from rich member States, non-member States and regional and international financing institutions on voluntary basis. The rich member States may elect to bear greater shares in subscriptions to the capital stock of the Bank and so, under the circumstances, are not expected to voluntarily make substantial grants towards the creation of an interest subsidy fund. The unsuccessful efforts of the ADB to establish so far an interest subsidy fund would tend to support this contention. The Management of ADB, following a study on an interest subsidy fund[15] submitted a proposal at the Bank's Twelfth Annual Meeting at Kinshasa but up till now nothing has been achieved in this respect. In fact the idea, as a result, has almost been abandoned. The situation is not likely to be different with the proposed subregional trade and development Bank. It will therefore not be useful to recommend the establishment of an interest subsidy fund as a window of the Bank at least in the initial stage of its operations.

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[15] ADB/BG/XII/5/Corr.1.

CHAPTER VI

FINANCIAL VIABILITY

A. The case of a New Bank

112. The financial viability of the proposed Bank will initially depend to a large extent, on the willingness of the members of the Bank to contribute their share of equity on a timely basis. It will also depend on the competence of the Bank's management to utilize the available resources of the Bank in an efficient manner. In this context, it is of paramount importance that the Bank should possess a body of professionally competent project staff to identify and appraise, national and multinational projects and disburse the loans within the shortest possible time, after completing the necessary loan formalities. These pre-requisites are very essential whether a completely new Bank is established or the EADB is transformed into the proposed Trade and Development Bank for the subregion.

113. Based on a set of assumptions, a financial scenario for a new Bank is developed. These assumptions are of capital importance for the purpose in view. Changes in these assumptions will affect the results of the scenario.

114. The first set of assumptions concerns the capital structure of the new Bank and the form and time pattern of its equity subscriptions. Based on the scenario presented, the authorized capital of the Bank will be about US$800 million out of which one-third will be paid in and the balance callable. It is further assumed that the subregional members will subscribe 51 per cent of the equity over a period of 4 years and the non-subregional members will subscribe the remaining 49 per cent on the same basis as the subregional members but with a time lag of two years. The subregional members will pay 40 per cent of their paid-in portion during the first year, 20 per cent during the second year, twenty per cent during the third year and the remaining 20 per cent during the fourth year.

115. Based on the above assumption, the paid-in portion of the equity of the new Bank will be as follows:

Eastern and Southern African Trade and Development Bank

Statement of paid-in equity contributions

(US$ million)

Year	Subregional members' contributions	Non-subregional members' contributions	Total	%
1	54	-	54	20
2	27	-	27	10
3	27	52	79	30
4	28	26	54	20
5	-	26	26	10
6	-	26.5	26.5	10
Total	136	130.5	266.5	100

Share capital account (paid-in)

Year	1	2	3	4	5	6
Subregional members	54	81	108	136	136	136
Non-subregional members	-	-	52	78	104	130.5
Total	54	81	160	214	240	266.5

116. The second set of assumptions is that long-term borrowings will be negotiated from the first year at a concessionary average rate of 9 per cent per annum though the actual drawdown will be made only from the third year. Based on the projected lending during the first two years, the equity contributions, if paid as planned, will be sufficient to cover the loan portfolio during that period. The possible sources of such debts are the African Development Bank, the International Bank for Reconstruction and Development, (World Bank), the Swedish International Development Authority (SIDA), the Arab Bank for Economic Development in Africa (BADEA), Kreditanstalt Fur Widerau bau (KFW) Germany, OPEC Fund, Kuwait Development Fund (KDF) and International Fund for Agricultural Development Fund (IFAD) etc. It is also assumed that all long-term borrowings will have a grace period of five years followed by a ten year repayment period.

117. The third set of assumptions is that none of the Bank's ordinary resources will be utilized for concessionary lending (soft loans) such as those provided by the International Development Association (IDA), the African Development Fund (ADF), etc. It is also assumed that the Bank will disburse twenty-five per cent of its commitments during the year of commitments itself, fifty per cent during the following year and the remaining twenty-five per cent during the third year. Accordingly, the projected loan approvals/commitments and disbursements during the first five years are given below:

Eastern and Southern African Trade and Development Bank

Statement of projected loan approvals/commitments and disbursements

Year	1	2	3	4	5	1-5
Loan approvals/ commitments	-	50	60	70	80	260
Disbursements	-	12.5	40	60	70	182.5
Undisbursed commitments	-	37.5	57.5	67.5	77.5	77.5

It is also assumed that the average lending rate will be 12 per cent per annum and all loans have a four year grace period followed by a ten year repayment period.

118. The fourth assumption is that the net current assets consisting mostly of undisbursed resources of the Bank, will be invested in short-term assets such as money at call and short notice, time deposits, etc., and will earn an average return of 10 per cent per annum.

119. The fifth assumption is that the host country will provide office accommodation free of charge to the Bank at least during its first ten years of operations. If this assumption is not met then the Bank would have to use a significant portion of its resources to construct a headquarters building during its formative years; this will reduce the Bank's lending capacity and consequently might alter the results of the scenario significantly. The fixed assets shown on the projected balance sheet are composed, according to the assumption made, mainly of office furniture and equipment, motor vehicles, etc.

(i) Projected profit and loss accounts

120. The forecast profit and loss statement for a five-year period is presented in Annex IV, Table I and a summary of the same is shown below:

Eastern and Southern African Trade and Development Bank

Projected profit and loss account

(US$ million)

Year	1	3	5	1 - 5	%
Loan interest	-	3.90	17.70	32.25	55
Short-term investment income	2.50	2.75	7.50	24.50	41
Other income	-	0.50	0.90	2.40	4
Total income	2.50	7.15	26.10	59.15	100
Expenditure					
Finance cost	-	0.90	4.05	7.20	12
Staff and administration expenses	1.50	4.80	7.20	22.80	39
Depreciation	0.09	0.25	0.40	1.23	2
	1.59	5.95	11.65	31.23	53
Management fees from Trade Fund	-	(1.20)	(2.40)	(5.70)	(10)
Total expenditure	1.59	4.75	9.25	25.53	43
Net profit	0.91	2.40 1/	16.85	33.62	57

1/ At the beginning of the third year, it is assumed that US$70 million will be transferred from the Bank's ordinarry resources to Trade Fund, hence low net profit.

Interest income loans

121. Interest on all portfolio loans is calculated at an interest rate of 12 per cent per annum.

Short-term investment income

122. It is assumed that all undisbursed resources of the Bank are invested in short-term deposits yielding a return of 10 per cent per annum.

123. Other income is derived from commitment fees, commission, exchange, etc.

124. Finance cost is computed at the rate of 9 per cent per annum on long-term borrowings.

Staff and administrative costs

125. It is assumed that staff and administrative expenses will be 6 per cent of loan approvals for the year. The corresponding figures for ADB (last two years average) is about 5.25 per cent. In the case of EADB the percentages for the last two years are very high since the operations of the Bank were minimal.

126. Depreciaion is calculated for the purpose of writing off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Motor vehicles - 25 per cent

Furniture and equipment - 12 per cent

Management fees from Trade Fund

127. A management fee of 3 per cent on the annual outstanding of trade financing is charged on Trade Fund for its administration by the Bank.

(ii) Projected balance sheet

128. A statement of projected balance sheet for the first five years of Bank's operations is presented in Annex IV, Table 2 and a summary of the same is shown below:

Eastern and Southern African Trade and Development Bank

Projected balance sheet as at end of:

(US$ million)

	Year 1	Year 3	Year 5
Net current assets	54.38	62.47	79.34
Loans	-	52.50	182.50
Trade fund		70.00	70.00
Fixed assets	0.53	1.43	1.78
Total	54.91	186.40	333.62
Financed by:			
share capital	54.00	160.00	240.00
Retained earnings	0.91	6.40	33.62
	54.91	166.40	273.62
Long-term borrowings	-	20.00	60.00
Total	54.91	186.40	333.62
Debt/equity ratio	-	0.12	0.22

129. The summary above reveals that the debt/equity ratio of the Bank remains low during the initial five years of the Bank; hence it will have considerable borrowing capacity. A low debt/equity ratio will certainly be an advantage for borrowing in the capital market. In this connexion, it should be reiterated that the extremely sound situation of the proposed Bank is attributable mainly to the assumption of the timely payment of paid-in portion of the equity by members of the Bank. By the end of fifth year, the undisbursed commitments of the Bank, according to the computation made, are US$77.5 million while the net current assets composed mainly of short-term deposits will amount to US$79.34 million which could cover the commitments fully.

Trade Fund

130. One of the major objectives of the proposed Bank is the promotion and development of trade in the subregion. Therefore it is assumed that the Bank will allocate US$70 million from its ordinary resources during the third year to the proposed Trade Fund, for providing short- and medium-term facilities in this respect. It is also assumed that the Bank will operate this activity through a separate window. The Bank will maintain separate accounts for financing trade and also will charge a management fee for administering the Trade Fund.

(iii) Projected statement of source and application of funds

131. A forecast statement of source and application of funds for the first five years of the operation of the proposed Bank is presented in Table 3 of Annex IV and a summary of the same is shown below:

Eastern and Southern African Trade and Development Bank

Statement of source and application of fund

(US$ million)

Year	1	3	3	1 - 5	%
Funds generated from operations	1.00	2.65	17.25	34.85	10
Equity contributions	54.00	79.00	26.00	240.00	72
Long-term borrowings	-	20 .00	30.00	60.00	18
Total source of Funds	55.00	101.65	73.25	334.85	100
Application of funds					
Loan disbursements	-	40.00	70.00	182.50	54
Trade Fund		70.00	-	70.00	21
Fixed assets	0.62	0.77	0.54	3.01	1
Increase/(Decrease) in working capital	54.38	(9.12)	2.71	79.34	24
Total	55.00	101.65	73.25	334.85	100

132. It can be seen from the above that 72 per cent of the funds were generated from equity contributions, with 18 per cent from long-term borrowings and 10 per cent from internal sources. Therefore, one cannot overemphasize the importance of the timely payment of the paid-in portion of equity.

133. The three projected financial statements discussed above reveal that, if managed well, a completely new trade and development Bank established in the subregion could be financially viable. However, the fact that the projections are based on a set of assumptions that, if modified, could lead to significant changes in the results reached must be reiterated.

B. Transformation of East African Development Bank (EADB) into the proposed Subregional Trade and Development Bank

134. The financial viability of the proposed Bank, whether a completely new Bank is established or the present East African Development Bank is transformed, will very much depend upon the competence of the Bank's management to utilize the available resources of the Bank efficiently and the willingness of the members of the Bank to put the resources earmarked for the Bank at its disposal on a timely basis. In this context, the present EADB is a going concern, financially viable, having a net worth of US$24 million as of 31 March 1981. During the last ten years EADB made profits every year except in 1977. Inspite of the difficult political and economic framework within which the Bank has had to operate particularly in recent years the Bank has made a significant contribution to the economies of its three partner States. In the process, it has developed an institutional capability to handle national and multinational projects and has assembled a body of well trained professionals who can form the nucleus for the proposed Bank. All professional staff are graduates in either accountancy, business administration, economics or engineering. Thus, one of the major assets of the EADB is its professional staff of which there are 39 (out of a total of 93 staff).

135. Based on a set of assumptions, a possible financial scenario of transforming the present EADB into the proposed Bank has been developed. These assumptions are of capital importance and variations in any of them might lead to significant changes in the scenario.

136. The first set of assumptions concerns the capital structure of the proposed Bank. The resources required for the Bank were dealt with in Chapter V of this study. The suggested authorized capital of the proposed Bank is US$800 million with one-third equivalent to US$266.5 million paid-in and the balance of US$533.5 million callable. Subscription of 51 per cent (US$408 million) of the

authorized capital of the Bank by member States with the remaining 49 per cent (US$392 million), subscribed by non-subregional member States and institutions will ensure effective control of the Bank by its subregional members and is a basic assumption as regards contributory ratio. With regard to form and time of payment of the paid-in capital, it is assumed that member States will pay 40 per cent of the paid-in portion during the first year and the balance during the next three years in three equal instalments. It is further assumed that the capital reserved for non-subregional member States and institutions will also be taken up on the same basis as the subregional members except that such payment will commence during the second year of the new Bank's operations. In EADB there are seven non-subregional members - (African Development Bank (ADB), Barclays Bank International, Commercial Bank of Africa, Consortium of Yugoslav Institutions, Grindlays Bank, Standard Chartered Bank and Post-Och Kreditbanken) all holding about 7.6 per cent of the equity.

137. According to the valuation of the assets and liabilities of EADB, the non-subregional members, as mentioned above, will have a share of US$2 million. It is further assumed that this amount of US$2 million will be utilized by the non-subregional members in taking up equity in the proposed Bank in case EADB is transformed into the proposed Bank.

138. Based on the first set of assumptions indicated above, a statement of the paid-in portion of the Equipty capital of the proposed Bank is given in Table I below:

Table 1

Eastern and Southern African Trade and Development Bank

Statement of paid-in capital

(US$ million)

Year	Subregional members' contributions	Non-subregional contributions	Total contributions	%
1	55	2	57	21
2	27	52	79	30
3	27	26	53	20
4	27	26	53	20
5	-	24.5	24.5	9
Total	136	130.5	266.5	100

139. The second set of assumptions related to long-term external borrowings. At present, EADB has two loans from the African Development Bank (ADB) (US$ 2 million and 5 million), two loans from the World Bank (IBRD) (US$8 million and 15 million) and three loans from the Swedish International Development Authority (SIDA) (SKr. 25 million, 30 million and 10 million) and the loans outstanding, in this respect, as of 31 May 1981 were ADB UA.1.29 1/ million and 1.89 million, IBRD 1/ US$2.73 million and 11.63 million and SIDA SKr. 25 million, 30 million and 10 million. These loans have maturity periods ranging from ten to thirty years. It is assumed that these loans will continue on the same terms and conditions even after the possible transformation of the EADB. New loans will be contracted as from the first year, but the actual draw down will be made only from the third year since during the first two years lending operations can be covered by equity contributions. It is also assumed that the new loans to be contracted will be at a concessional rate of 9 per cent per annum having a grace period of 5 years followed by a repayment period of ten years. The possible sources of such finance are, in addition to the present lenders of EADB, the Arab Bank for Economic Development in Africa (BADEA), Kreditanstalt Fur Wiederau bau (KFW) Germany, OPEC Fund, Kuwait Development Fund (KDF), the International Fund for Agricultural Development (IFAD), etc.

140. Portfolio loans are the subject of the third set of assumptions. It is assumed that in addition to the existing loan portfolio of the EADB, the proposed Bank will disburse 25 per cent of its commitments in the year of commitments, 50 per cent during the second year and 25 per cent during the third year. On the above basis, the projected loan approvals/commitments and disbursements are shown in Table 2 below: It is also assumed that the proposed

Table 2

Eastern and Southern African Trade and Development Bank

Statement of Projected loan approvals 2/

commitments and disbursements

(US$ million)

Year	1	2	3	4	5	Total 1 - 5
Loan approvals and commitments	40	60	70	80	90	340
Loan disbursement	10	35	57.5	70	80	252.5
Undisbursed commitments	30	55	67.5	77.5	37.5	87.5

1/ The amounts to be drawn down in relations to the second ADB and IBRD Loans will be over US$ 8 million.

2/ For the purpose of determining commitments all approvals of loans are taken as commitments.

Bank will not invest its ordinary resources during the first five years for concessionary lending (soft loans) of the type provided by the African Development Fund (ADF) and the International Development Association (IDA). Another assumption with regard to new loans disbursed by the Bank will be that the new loans will be at an average interest rate of 12 per cent per annum with a grace period of four years followed by a repayment period of ten years.

141. The fourth assumption is that the undisbursed resources of the Bank will be invested in the capital market as short-term investments (money at call and notice, time deposits etc.) which will earn an average return of ten per cent per annum.

142. The fifth assumption relates to fixed assets. The EADB has its own headquarters buildings and staff and officers' quarters etc. Therefore, it is assumed that the proposed Bank will not invest its ordinary resources during its first five years in land and buildings.

143. The sixth assumption is that the proposed Bank will allocate US$70 million from its ordinary resources in the beginning of the third year to the Trade Fund, for the purpose of financing trade. During the first two years of the operations of the Bank, it may not have adequate resources for this purpose. It is also assumed that the Bank will operate this activity through a separate window and consequently separate accounts will be maintained for trade financing operations. It is hoped that the resources for trade financing will be increased in proportion to the increase in the resources of the Bank since the major objective of the Preferential Trade Area (PTA) is trade development in the subregion.

(i) Projected profit and loss accounts

144. A statement of projected profit and loss accounts of the proposed Bank during its first five years of operations is presented in Annex IV, Table 4 of this study and a summary of the same is given in Table 3 below:

Table 3

Eastern and Southern African Trade and Development Bank

Projected profit and loss account

(US$ million)

Year	1	3	5	Total 1 - 5	%
Income					
Interest on loans	5.17	12.48	28.16	72.88	68
Short-term investment income	1.50	3.50	10.00	27.50	26
Other income	0.65	1.25	1.95	6.20	6
Total income	7.32	17.23	40.11	106.58	100
Expenditure					
Finance cost	1.97	3.34	9.85	23.82	22
Staff and administration expenses	2.40	5.40	7.80	26.10	25
Depreciation	0.53	0.59	0.62	2.92	3
Provision for possible loan losses	0.40	0.31	0.23	1.56	1
	5.30	9.64	18.50	54.40	51
Less management fees from Trade Fund		1.20	2.40	5.70	5
Total expenditure	5.30	8.44	16.10	48.70	46
Net profit	2.02	8.79	24.01	57.88	54
Cumulative net profit	2.02	18.12	57.88		
Return on paid-in capital	3.54%	4.65%	9%	6.50%	

145. The above Table 3 shows that the proposed Bank would be profitable. During the initial five years of its operations 68 per cent of the income would be derived from interest on loans, 26 per cent from short-term investments and the balance from commitment fees, commissions and fees etc. Furthermore, 22 per cent of the income would be spent on finance cost, 20 per cent on staff and administrative costs 3 per cent on depreciation on fixed assets and 1 per cent on provision for possible loan losses and the balance of 54 per cent would represent net profits. The cumulative net profits would be US$57.88 million which are about 22 per cent of paid-in capital.

Interest on loans

146. Interest on new loans is calculated at an average rate of 12 per cent per annum and that of EADB present loans is calculated at an average rate of 11 per cent per annum.

Short-term investment income

147. As mentioned earlier the undisbursed resources of the Bank will be invested in the capital market as short-term investments at an average return of 10 per cent per annum. Therefore, the income is computed on that basis.

Other income

148. This income is derived from rent, dividends on equity investment (EADB equity investment in various projects), commitment fees and commissions etc.

Finance cost

149. The finance cost on the EADB present long-term borrowings is computed on the basis of the actual terms and conditions of those borrowings. The finance cost on the new borrowings is calculated at an average rate of 9 per cent per annum.

Staff and administative costs

150. It is assumed that the staff and administrative expenses will be about 6 per cent of the total loan approvals made during the respective year and on that basis compulation has been made in this respect. The corresponding rate for ADB is 5.25 per cent (average for the last two years); that of EADB is too high since EADB's operations during the last two years were very limited.

Depreciation

151. Depreciation is calculated for the purpose of writing off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Leasehold land and buildings	5 per cent
Motor vehicles	25 per cent
Furniture and other equipment	12 per cent

Management fees from Trade Fund

152. A management fee of 3 per cent on the annual balance outstanding on trade financing operations is charged on the Trade Fund for its administration by the Bank.

Provision for possible loan losses

153. A provision of 1 per cent on the outstanding EADB loan portfolio at the end of every year has been made to cover possible loan losses. In the case of additional loans disbursed by the Bank no provision has been made since repayments would start, as assumed, only as from the fifth year.

(ii) Projected balance sheet

154. A projected balance sheet for the first five-year period is presented in Annex IV, Table 5 and a summary thereof is shown in Table 4.

Table 4

Eastern and Southern African Trade and Development Bank

Projected balance sheet

(US$ million)

Year	1	3	5
Net current assets	33.32	63.73	116.04
Loans (net)	49.42	133.01	274.26
Investments (equity)	2.15	2.15	2.15
Trade Fund	-	70.00	70.00
Fixed assets (net)	9.15	8.39	7.48
Total	94.04	277.28	469.93
Financed by:			
Share capital	57.00	189.00	266.50
Retained earnings	2.02	18.12	57.88
	59.02	207.12	324.38
Long-term borrowings	35.02	70.16	145.55
Total	94.04	277.28	469.93
Debt/Equity	0.59	0.34	0.45
Undisbursed commitments	30.00	67.50	87.50

155. The above projection is based on the valuation of the assets and liabilities of EADB as of June 1981. The 1981 (first quarter) EADB balance sheet is therefore adjusted to reflect the valuation of EADB's assets and liabilities carried out by a team of experts. Based on the valuation, the net assets of EADB will increase from US$24.36 million to US$28.31, i.e. an increase of US$3.95 million. It is assumed that the assets and liabilities of EADB; if transformed, will be taken over by the proposed Bank on the basis of the valuation carried out by the team of experts.

156. It can also be seen from the above Table that the loan portfolio increased about 5.5 times between the first year and the fifth year of Bank operation, i.e. from US$49 million to 274 million. In terms of liquid funds, it is also evident from the balance sheet that the Bank has sufficient working capital to meet all undisbursed commitments. The debt/equity ratio by the end of the fifth year would be 0.45 and consequently, the Bank will have considerable borrowing capacity. A low debt/equity ratio would be a great advantage in borrowing by the Bank from the international capital market. This situation is possible only if the subregional members contribute their portion of the paid-in capital on schedule and all the equity reserved for non-subregional members is taken up as planned.

(iii) Projected source and application of funds

157. A statement of projected source and application of funds for the first five years of the operations of the Bank is presented in Annex IV, Table 6 and a summary of the same is shown in Table 5 below:

Table 5

Eastern and Southern African Trade and Development Bank

Projected source and application of Funds

(US$ million)

Year	1	3	5	1 - 5	%
Source of Funds					
Funds from operations	2.95	9.69	24.86	62.36	13
Equity contributions	57.00	53.00	24.50	266.50	57
Loan repayments	3.50	4.25	4.50	20.00	4
New long-term borrowings	-	40.00	50.00	120.00	26
Total source of Funds	63.45	106.94	103.86	468.86	100
Application of Funds					
Loan disbursements	10.00	57.50	80.00	252.50	54
Trade Fund		70.00		70.00	15
Repayment of borrowings	2.43	2.43	2.30	11.90	3
Increase in Fixed Assets	0.10	0.15	0.12	0.82	
Changes in working capital	50.92	(23.14)	21.44	133.64	28
Total application of Funds	63.45	106.94	103.86	468.86	100

158. The above Table 5 reveals that during the first five years, 13 per cent of the funds would be generated from the operations of the Bank. Whereas 57 per cent would be obtained from equity contributions and 26 per cent from long-term borrowings. However, 54 per cent of the funds generated are utilized for loan disbursements and 15 per cent for trade financing. Repayment of loans and repayment of long-term borrowings are 4 per cent and 3 per cent respectively. Also, 28 per cent of the funds generated representing mostly the undisbursed resources of the Bank, would be invested in short-term investments.

159. All the three projected financial statements reflected in Tables 4, 5 and 6 clearly indicate that in case the EADB is transformed into the proposed subregional Trade and Development Bank, the institution would be financially viable and interms of liquid funds it would also be sound. However, one cannot over-emphasise the fact that the projections are based on a set of strategic assumptions that, if modified, could lead to significant changes in the scenario.

C. Trade Fund

160. Whether the EADB is transformed or a new bank is established, trade financing will be new to both of these institutions. As mentioned earlier, it is assumed that the proposed Bank may allocate US$70 million from its ordinary resources in the beginning of the third year to the trade fund for the purpose of financing trade. During the first two years, the Bank may not have sufficient resources for this purpose. It is also assumed that the Bank through the trade financing fund will provide short- and medium-term facilities at an average interest rate of 11 per cent per annum. The unutilized resources, if any, may be invested in short-term investments which may earn an average return of 10 per cent per annum. It is further assumed, as indicated earlier, that the Bank will administer the Trade Fund through a separate window and consequently charge a management fee of 3 per cent on the annual balance outstanding on trade financing operations.

161. Based on these assumptions, projected profit and loss accounts, balance sheets and source and application of funds for the three-year of operations commencing from the third year of the Bank's operation are prepared and shown in Tables 6, 7 and 8 respectively. From the statement of projected profit and loss account (Table 6), it can be seen that the trade financing operations are also financially viable and the cumulated profit for the three-year period is expected to be US$19.05 million which is slightly over 27 per cent of the resources allocated to the Trade Fund.

Table 6

Eastern and Southern African Trade and Development Bank

Trade Fund

Projected Profit and Loss Account

(US$ million)

Year	3	4	5	3 - 5
Interest income from trade financing	2.20	6.05	8.20	16.45
Short-term investment income	5.25	2.25	0.80	8.30
Total Income	7.45	8.30	9.00	24.75
Expenditure				
Management fees paid to the Bank	1.20	2.10	2.40	5.70
Total Expenditure	1.20	2.10	2.40	5.70
Net Profit	6.25	6.20	6.60	19.05

Table 7

Eastern and Southern African Trade and Development Bank

Trade Fund

Projected Balance Sheet

(US$ million)

Year	3	4	5
Net Current Assets	36.25	12.45	9.05
Trade Financing	40.00	70.00	80.00
Total	76.25	82.45	89.05
Financed by			
Trade Fund	70.00	70.00	70.00
Retained earnings	6.25	12.45	19.05
Total	76.25	82.45	89.05

Table 8

Eastern and Southern African Trade and Development Bank

Trade Fund

Projected Source and Application of Funds

(US$ million)

Year	3	4	5	3 - 5
Source of funds				
Trade fund (allocation from the ordinary resources of the Bank)	70.00	-	-	70.00
Fund generated from operations	6.25	6.20	6.60	19.05
Repayment of trade financing	-	30.00	55.00	85.00
Total source of funds	76.25	36.20	61.60	174.05
Application of funds				
Trade financing	40.00	60.00	65.00	165.00
Changes in working capital	36.25	(23.80)	(3.40)	9.05
Total application of funds	76.25	36.20	61.60	174.05

D. Advantages and disadvantages of the proposed and present EADB

162. In this connexion, consideration should be given to the advantages and disadvantages of either transforming the present EADB or to establishing a new Bank for the purpose:

(a) Transformation of EADB into the proposed Bank. The advantages may be as follows:

(i) Physical faciliities:

163. EADB has its own headquarters building and staff quarters etc. Therefore, this institution need not use any of its resources for this purpose.

(ii) Manpower:

164. EADB has assembled a body of well-trained professional staff who are at present 39 in number and who may form the nucleus for the proposed Bank. This will enable the Bank to avoid the problem of recruiting a new cadre of experienced staff in case EADB is transformed, and to start operations at an early date. In fact, one of the major assets of EADB is its professional staff.

(iii) Institutional capability:

165. One of the major objectives of the proposed Bank relates to the financing of multinational projects and to the provision of technical assistance in this respect. In this connexion, EADB has developed an institutional capability to handle both multinational and national projects.

(iv) Technical Library:

166. EADB has also developed a specialized technical library, though small in size, which can be of assistance in the research and other relevant activities of the proposed Bank.

(v) External contacts:

167. EADB has already established good external contacts with multinational and bilateral financial institutions which may be useful for the proposed Bank in mobilizing resources from external sources.

(vi) Non-subregional membership:

168. EADB has already seven non-subregional members and their participations in the equity of EADB has and will assist in finding non-subregional members for taking up more equity in the proposed Bank.

(vii) Soundness of EADB:

169. EADB is a going concern which is financially viable and possesses sufficient liquid funds; this indicates the soundness of this institution.

(viii) The transformation of EADB into the proposed Bank will avoid proliferation of multinational financial institutions.

Disadvantages:

170. (i) The early settlement of the assets and liabilities of EADB might be a significant factor in the commencement of the operations of the proposed Bank. Any delay in the negotiations, in this respect, with the present owners of the EADB may, therefore, affect unfavourably the immediate start of the Bank's activities

(b) Establishment of a new Bank:

171. The main advantage, in this respect, is that negotiations with the present owners of the EADB on its transformation and on the settlement of its assets and liabilities will be avoided.

172. Moreover, in case the negotiations with the owners of EADB become protracted then the commencement of the operations of the proposed Bank will be delayed.

Disadvantages: These are:

(i) Office accommodation

173. The Bank may have to depend on the host country, where the Bank is going to be located, to provide accommodation free of cost to the Bank, in the initial ten years of its operations. If this is not possible, then the Bank has to rent office accommodation, while at the same time it will have to use a significant portion of its resources to construct a headquarters building and may be other buildings during its formative years. This will reduce the Bank's lending capacity and consequently affect its profitability.

(ii) Manpower:

174. The subregion confronts the problem of acute shortage of experienced professional staff in development banking. The institution will, therefore, have to recruit suitably qualified and experienced staff for the purpose. This may, as a result, delay the commencement of the operations of the Bank.

(iii) Possibility of raising resources from external sources:

175. The capacity of the Bank to raise funds from external sources will depend upon the Bank's credit standing. This has to be built up over a period of time. As a result, it may take some years for the Bank to raise adequate funds from external sources. Moreover, the Bank may have to compete with the present development finance institutions in the area in mobilizing funds from external sources.

E. Manpower requirements for transformation of EADB

176. The EADB has at present 39 professional staff out of a total strength of 93. It is assumed that this body of professional staff may form the nucleus of the proposed Bank in case it is transformed into the proposed Bank.

177. For administrative purposes, EADB is at present divided into five divisions: Administration, finance, operations, research and planning, and Secretary/Legal affairs. Each of these divisions is headed by a Director. In addition, there are three regional offices headed by managers. All the directors and regional managers report directly to the Director-General, the chief executive of the Bank.

178. Some changes will however, be necessary to the manpower requirements, in the event the EADB is transformed into the proposed Bank. The amended manpower requirements, during the initial five years are shown in Annex IV, Table 7.

179. The title of Director-General is changed into or in the case of the new Bank that of President. The President will be assisted by one or more Vice-Presidents. For the first five years, it is assumed that there will be only one Vice-President. For Administrative purposes, it is suggested that the proposed Bank should have four divisions: Administration, finance, operations, and Secretary/Legal affairs. It is also suggested that the subregion may be divided into three zones each to be headed by a manager. The zonal managers may have to be under the supervision of the director of operations instead of that of the President directly as in the

case of the present EADB. Details of the number and quality of professional staff are shown in the above table. In the first year, the number of professional staff required is expected to be 43. There may be increases in the number from year to year and so by the fifth year of the operation of the Bank, the number may rise to 95 as indicated in the table.

F. Manpower requirements - new Bank

180. Projected manpower requirements for the first five years of the operations of the new Bank is given in Annex IV, Table VIII. The President of the Bank should take up his position in the first year of the operations of the Bank. One Vice-President may be recruited during the third year of the Bank's operations. The Vice-Presidents could be recruited, (if need be) after the first five years of the Bank's operations. It is assumed that the President will be able to cope with the activities of the Bank during the first two years.

181. It is proposed that the new Bank should have four divisions during the first five years: Administration, Finance, Operations and Secretary/Legal Affairs. Each of the divisions will be headed by a Director. In the first year, the Director of Finance will combine the functions of administration and finance. The Director of administration may be recruited not earlier than the second year but considerably later. It is suggested that the subregion may be divided into three zones, each to be headed by a manager. Zonal offices may be opened as from the second year of the operations of the Bank as dictated by the Bank's operations. Details of the number and quality of the professional staff required during the first five-year period is shown in the above Table 8. In the first year, the professional staff may be 15 in number. As the Bank's operations increase, the number of such staff may also increase. It is expected, however, that the number may increase to 83 by the end of the fifth year of the operations of the Bank as indicated in Table 8.

182. It is further suggested that personnel with the requisite skills will be required for the successful take-off of the trade financing window of the Bank. This will be the case whether the EADB is transformed into the proposed Bank or a new Bank is established anew. As indicated in Table 8, the financing window will commence operations as from the third year. In view of shortage of trained personnel in this field in the subregion, technical assistance may be obtained, for this purpose, from UN agencies or elsewhere from outside the subregion.

CHAPTER VII

BORROWING AND LENDING OF PROPOSED BANK: POLICIES AND PRACTICES

A. Borrowing

General

183. The initial operations of the Bank will be financed from subscriptions of equity capital by member States. Both operating expenses and initial loans will be supported from this source. Thereafter, in order to augment the level of lending operations beyond what can be supported from subscriptions, it will be imperative for the Bank to borrow from external sources on the strength of its callable capital. The magnitude of such borrowings will be largely determined by the anticipated quantum of commitments and expected rate of disbursement of loans.

184. It is obvious that the Bank's approach to borrowing will partly determine the nature, terms and conditions of funds made available from outside sources. Various possible sources of borrowing have been identified and a realistic policy will be required to mobilize such resources. In other words, choices have to be made from among the various sources, consistent with specific requirements of the proposed lending programme. For example, borrowings should take into consideration the lending that should be based on conventional or concessional terms or on a blend of both.

Framework for Bank borrowing

185. Bank borrowing will be based on the principle of separation of operations according to whether resources are ordinary (conventional) or special (concessional). The share of ordinary resources in aggregate portfolio would tend to be larger but the growth in the volume of special funds will depend on the significance the Bank attaches to the need for concessional loans for its less developed members on the one hand and on the availability of soft loans or grants from external sources on the other hand.

186. The most significant factor determining the extent to which various resources can be mobilized will be the Bank's policy on the evolution of the capital structure. There will be a constant need for review of the capital structure, not only to strengthen the element of self-help among member countries but also to ensure that the scope for additional borrowing is always maintained. This implies, for example, that an aggressive policy of lending by way of guarantees should be viewed cautiously and that capital resources subscribed but not yet applied to lending operations should be invested prudently. These constitute appropriate guidelines to follow during the initial 5-10 year period of the Bank's operations.

(a) Ordinary borrowing

187. The Bank's ordinary resources will be dominated by equity funds during most of the initial period of operations and new additions to capital funds will largely depend on the performance, in this respect, of internal operations with regard to reserve - accumulation. The next vital phase in the development of the Bank's resource base, representing a take-off stage, will be the beginning of active borrowing externally so as to increase the volume of ordinary resources. However, active borrowing will depend on the level of loan commitments and the resources available to the Bank. The African Development Bank follows this practice.

188. The internal generation of ordinary resources, it should be noted, does not add significantly to new sources of project loans. This is mainly owing to the terms and conditions on which loans are made from the ordinary resources account. Such loans have relatively longer grace and amortization periods; hence repayments of interest and repayment of principal tend to flow rather slowly. The internal inflow of resources would also tend to be affected by delays in the disbursement of committed loans. Decisions to borrow should take these constraining factors into account.

189. The potential sources of borrowing for the ordinary account are easily identifiable. A wide range of mechanisms and instruments that may be applied in the borrowing process are also largely known. Nevertheless, borrowing policies should be clearly spelt out and, if possible, appropriate standard practices and guidelines should be adopted. Borrowing policies and practices should be considered at three levels, as follows:

(i) <u>At Bank member States level</u>

190. The scope for mobilizing resources from member States may be constrained in the event that they are in arrears of subscriptions. Where this occurs, it is an obvious symptom of resource constraints and may inhibit further initiative on the part of the Bank to borrow by way of floatation of its securities. A measure of flexibility is sometimes permissible where the scarcity of foreign exchange is the major constraint. In some exceptional cases therefore subscriptions may be made in terms of local currency. Since the promotion of inter-state trade within the subregion is one of the objectives of the Bank, the Bank may float local currency securities to finance local investment costs.

(ii) <u>At International Financial Market level</u>

191. The key capital markets in the world are dominated by developed countries. An effective borrowing policy in these countries will therefore necessitate an active public relations exercise to establish the Bank's credibility in their financial markets. In order to gain access to their capital markets, lenders in these countries will require suitable guarantees. It is argued here that such guarantees will more easily be available from non-regional members of the Bank. This seems to be the most effective way for the Bank to build financial markets for its obligations, since securities cannot be offered for sale without the authority of the governments where these sales are being made. To ensure success in the case of sale of securities, the Bank would have to ascertain that these securities give competitive yields, this being true of both public and private placements.

(iii) <u>At Multilateral Institutions level</u>

192. During the transitional period, multilateral institutions will be the major sources of borrowing for financing medium- and long-term development projects. The immediate sources are likely to be the African Development Bank and the World Bank. It is unlikely however, that in the short term, both institutions will provide project loans as the Bank might not have developed an adequate pipeline of possible investments. Since project preparation efforts may not quickly lead to the formulation of project proposals for inclusion in the project pipeline, a borrowing policy should be adopted which will mobilize financing on a programme rather than on a project basis. Programme borrowing in this case may take the form of indirect loans such as lines of credit to support small-scale subregional projects or direct lending to strengthen the Bank's equity base.

Both ADB and the World Bank have been lending to individual country projects in the subregion. Bank borrowing from these sources will depend on the lending policies of these institutions in relation to subregional projects. It would appear that because of their previous experience in respect of national projects and institutions, both the ADB and the World Bank may confine their intervention at the subregional level to multinational or co-financeable projects. In view of these observations, it is imperative that the Bank's borrowing policy in relation to multilateral sources should emphasize co-financing and equity participation arrangements.

(b) Concessional borrowing

193. Apart from ordinary resources for which borrowing would be on conventional terms or market rates, special resources would be mobilized to make concessional lending possible. Concessional funds may be provided by both regional and non-regional members and also through other bilateral or multilateral arrangements. The Bank's requirements for concessional lending should be supported by efforts aimed at mobilizing both grant and concessional funds. Borrowing intended to feed a special fund to be established for the purpose may initially be undertaken by the subregional Bank to meet the investment needs of the least developed countries in the subregion. It is with the view to contributing towards balanced economic growth in the subregion that the establishment of the special fund has been espoused in the Bank's charter. An interest subsidy fund to which more developed member countries would contribute has a somewhat similar objective of providing funds to make the provision of loan funds below the basic interest rate possible. Concessional assistance may come from a wide range of sources, such as OECD countries, the World Bank affiliate - IDA, the African Development Fund, OPEC Fund, Arab Funds, etc. and the EEC. In order to tap these sources, the rationale for concessional assistance in the subregion must aggressively be sold to individual lenders.

B. Lending

(i) Policy on size of development loans

194. The amount of loans the Bank will make for the implementation of specific projects will be determined by: size of project, the cost of lending operations, efficiency in project preparation, implementation and supervision. The maximum and minimum limits of the loan will depend on the Bank's policy on loan ceilings.

195. In the context of the subregion small-scale projects will be mainly at the national level and medium-scale and large-scale projects mainly at the multinational level. The financing of small-scale projects will generally be undertaken through national development finance institutions by way of lines of credit. To facilitate the securing of Bank loans, it is suggested that they should not be smaller than those financed by national institutions.

(ii) Policies and practices in lending by the Bank

196. The lending policy of the Bank should be such that elements intended to reduce or remove institutional constraints are built into project designs so as to maximize the benefits that will accrue from the project. The designing of projects should take into account possible remedies for bottlenecks such as lack of skills for project preparation and implementation and lack of management experience. In this context the Bank might assist in alleviating the situation by incorporating technical assistance components for manpower training in the loan arrangement.

197. The bulk of Bank lending will generally be in the nature of direct loans for projects submitted by the participating countries. Loans could also be in the form of equity participation in specific projects or lines of credit to national development finance companies. Guarantees issued by the Bank for obtaining funds from other sources of project finance on behalf of its clients should be made sparingly in order to safeguard the Bank's own capacity to borrow on its unpaid and callable capital.

198. The financing of pre-investment or feasibility studies should be considered as part of the Bank's lending policy as these form an integral part of project identification and preparation. In view of the significance of multinational projects it is suggested that pre-investment lending should be limited to or concentrated on such projects. In the case of participation by the Bank in the equity capital of financial trading and other institutions, it is suggested that such participation should be limited to minority shareholding since the major objective of such participation is to strengthen the borrower's resource base. In view of the limited resources, the Bank may undertake such activity only after the fifth year of its operations.

199. During the initial years of the Bank's operations, the lines of credit obtained from multilateral financial institutions such as ADB, IBRD, etc. will form the core of the Bank's lending package. This will however depend on the lending policies of such institutions.

(iii) Lending rates and conditions

200. In respect of conventional lending the Bank's policy on interest rates should be such that it will allow a minimum spread or profit margin required to cover administrative costs plus a reasonable rate of return on the capital employed. At any rate, the interest rate actually applicable to Bank loans should also be meaningfully related to the average cost of funds within the countries of the subregion. The terms for concessional loans would be less stringent. Normally such loans will have a grace period of 10 years followed by a repayment period of 40 years with an administrative cost of 0.75 per cent per annum on loans outstanding.

CHAPTER VIII

ORGANIZATION AND MANAGEMENT OF THE BANK

Organs of the Bank

201. In order to carry out its functions efficiently, the Bank may have a Board of Governors, a Board of Directors, a President and such other officers and staff as it may consider necessary to run its operations.

(i) Board of Governors

202. The highest authority of the Bank shall be the Board of Governors and all powers of the Bank shall be vested in it. Each member may appoint one governor and one alternate who shall serve for three years subject to termination of appointment at any time, or to re-appointment, at the pleasure of the appointing member. No alternate may vote except in the absence of the governor concerned. As in the case of other international and regional finance institutions, the governors of the Bank may be Finance Ministers or other ministers and senior officials of the respective member States. The Board of Governors may select one of the Governors as Chairman, who shall hold office until the next regular meeting of the Board. The Board of Governors may elect seven members to the Board of Directors out of whom five shall represent the member States and two shall represent members other than member States. It may delegate its powers to the Board of Directors for the conduct of the general operations of the Bank but may not delegate the following powers to the Board of Directors:

(a) to discuss and give guidance to the Board of Directors as appropriate with respect to:

(i) the policies and operations of the Bank;

(ii) the annual report of the Board; and

(iii) any matters which the Board of Directors may refer to it.

(b) to approve the annual accounts of the Bank;

(c) to approve any distribution or other allocation of net income by the Board of Directors;

(d) approve the appointment of external auditors or such other experts as may be necessary to examine and report on the general management of the Bank;

(e) to take decisions on the admission of new members or suspension of present members;

(f) to take decisions on any increases in the authorized capital stock of the Bank;

(g) to determine the remuneration of directors and their alternates; and

(h) to take decisions on the termination of the operations of the Bank.

203. The Board of Governors shall retain full powers to exercise authority over any matter delegated to the Board of Directors. It shall also determine its own procedure, including that for convening its meetings for the conduct of business and for the rotation of the office of the chairman among themselves.

204. The Board of Governors may meet at least once a year and the Governors and alternates shall serve the Bank without any remuneration from the Bank, but the latter shall pay them reasonable expenses as incurred by them in attending meetings.

(ii) Board of Directors

205. The Board of Directors shall consist of seven directors. Of these, five shall be elected by the member States and two by members other than the member States. Each director shall appoint an alternate director who may have full powers to act for him when the director is not present. The alternates may participate in meetings of the Board but may vote only when they are acting on behalf of the directors concerned.

206. All directors should be persons possessing high competence and wide experience in economic, financial and banking affairs. They shall hold office for a term of three years and shall be eligible for re-appointment. They shall continue to hold the office until their successors are elected.

207. The Board of Directors should be responsible for the conduct of the general operations of the Bank and shall exercise all powers delegated to it by the Board of Governors, and in particular:

(a) elect the President and one or more Vice-Presidents of the Bank and determine their terms of services;

(b) appoint such technical or other sub-committee as it deems necessary;

(c) determine the basic organization of the Bank, including the number and general responsibilities of the chief administrative and professional positions of the staff of the Bank;

(d) approve the budget of the Bank;

(e) prepare the work of the Board of Governors;

(f) take decisions concerning particular loans, guarantees, investment in equity capital and borrowing of funds by the Bank and on other financial transactions, in conformity with the general directives of the Board of Governors;

(g) determine the rates of interest for loans, commissions for guarantees and other financial transactions of a similar kind;

(h) submit the accounts for each financial year and an annual report for approval to the Board of Governors at each annual meeting; and

(i) determine the general structure of the services of the Bank.

208. The Board of Directors shall normally meet at the principal office of the Bank and shall meet at least once every three months or more frequently if the business of the Bank so requires. The directors need not be full time.

(iii) President of the Bank

209 The President of the Bank, who shall be elected by the Board of Directors, shall be the legal representative of the Bank. He shall also be the Chief Executive and Administrative Officer of the Bank and shall conduct the day-to-day business of the Bank under the direction of the Board of Directors. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors.

210. The President shall be a person of high integrity and of the highest competence in matters pertaining to the activities, management and administration of the Bank. While holding office, neither the President nor any Vice-President shall be a governor or a director or alternate.

211. The President shall be chairman of the Board of Directors but shall have no vote except a deciding or casting vote in case of an equal division. He may hold office for a term of five years. The term may be renewed unless the Board of Directors or Board of Governors decides otherwise. He shall vacate his office if the Board of Directors so decides.

212. The Vice-President or in his absence any other senior officer of the Bank shall perform the duties and exercise the powers of the President in the event of the temporary absence or incapacity of the President.

213. The organization chart of the proposed Bank is shown in Annex V. In addition to the Board of Governors, the Board of Directors, President and Vice-President of the Bank, the organization chart shows the details of the operating divisions of the Bank as discussed under manpower requirements in chapter VI of the study.

214. The chart, as proposed, applies whether the EADB is transformed into the proposed Bank or a new Bank is established instead. Consequently, in case the EADB is transformed, the existing organization structure of the EADB will have to be changed in such a way as to conform with the proposed organization chart shown in the Annex referred to above.

(iv) Mechanisms for maintenance of African character of the Bank

215. The President, Vice-President or Vice-Presidents and the majority of the members of the staff of the Bank shall always be nationals of member States of the Bank.

216. In appointing officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of citizens of the member States.

217. Decisions of the Board of Directors concerning the appointment or termination of term of office of the President shall be taken by a vote representing a majority of the total voting power of the members of the Bank.

218. The voting power of each member of the Bank may be equal to the number of shares of the capital stock of the Bank held by that member. In order that the member States can retain control of the Bank, they are allocated the majority of the authorized capital stock of the Bank of at least 51 per cent. This arrangement would ensure the maintenance of the African character of the Bank at all times.

CHAPTER IX

INVESTMENT RECORD OF THE EADB DURING THE LAST SIX YEARS, 1975-1980 AND PROJECTS IN PIPELINE

A. Investment Record of EADB

General

219. The investment performance of the EADB has to be seen in terms of the objectives set for the Bank in its Charter and the environment in which the Bank carried out these objectives. The EADB, established in 1967 was one of the instruments designed by its Partner States to carry out the objectives of the East African Community.1/ The Bank's stated main objective was to redress the imbalance of industrial development in the Partner States of the Community by allocating more of its investments to Tanzania and Uganda. This was to assist the lesser developed two Partner States to catch up with their more industrialized Partner, Kenya. The Charter of the Bank specifically provided that the EADB so conduct its operations that although each of the Partner States holds an equal amount of the capital stock of the Bank, it would have provided 38.75 per cent of its total loans, investments and quarantees made over a five-year period to Tanzania, 38.75 per cent to Uganda and 22.50 per cent to Kenya. The 1967 Charter also laid stress on financing industrial projects of regional significance; that is, industries which would cater for the whole of the community. Among these industries were the concentration of textiles pharmaceuticals, paper mills, sugar company and electronic industries in Kenya; Aluminium industries, tanneries dyeing and weaving mills and salt mines in Tanzania; Wood Industries, poultry products, Cement Industry in Uganda.

220. With the break up of the community in 1977 these industries which had been designed to serve the whole community lost their markets in other Partner States, all of which were forced to operate under capacity. Operations of some enterprises declined to about 40 per cent of their former capacity. These development tended to reduce the impact of the EADB on the economies of the Partner States.

221. The limitation of EADB investments to industrial sectors also tended to reduce the impact of the Bank on the economies of the Partner States. The Bank as a result could not operate with a degree of flexibility that would have made its impact felt in other economic sectors. 2/

222. The EADB during the first five years of its operations from 1968 to 1972 met with some success in trying to reduce imbalances in the industrial sectors of its Partner States. The volume of projects approved in Tanzania and Uganda reflected to some extent the special treatment called for in the EADB Charter. The fact that very much could not be achieved was due to the fact that enough bankable projects were not forthcoming from the two lesser developed Partner States.

1/ The East African Community collapsed in 1977.

2/ This was recognized and according to the new Charter of the EADB it will not only be involved in the industrial sectors as before but will also invest in other sectors such as agricultural forestry, tourism, transport and communications and other infrastructural areas. This will enable the Bank to attain a wider degree of investment flexibility.

223. **Overall**, there was steady growth in EADB loan approvals during the first five years. This rose to US$9.9 million in 1972. This trend was reversed in 1973 when EADB loan approvals declined to US$2.9 million. The sharp decline in loan approvals was due mainly to disruptive political changes in Uganda.3/ The loan approvals picked up the following year, and continued the upward trend in subsequent years, reaching a peak of US$10.4 million in 1977 and declined thereafter.

3/ The political disruption in Uganda, was a major factor in the decentralization of the operations of the Bank in 1973 to regional offices with complete appraisal and supervision of projects in Nairobi and Dar es Salaam in addition to the one in Kampala, the headquarter of the EADB.

224. Table 1 shows the [illegible] record of the EADB from 1975 to March 1981. As the Table shows loan approvals fell from the peak figure of US$10.4 million to very low figures of US$1.1 million and US$1.6 million in 1979 and 1980 respectively. The low investment record from 1978 to 1980 was caused by the collapse of the community in 1977 and the uncertainty of the future of the EADB which followed the collapse. The uncertainty affected the operations of the Bank as well as its ability to raise funds in the three years. Beside the decline in loan approvals, loan commitments and disbursements also declined as shown in the Table. As to EADB equity investments, there have been no disbursements since 1977 and no new equity investments approvals since 1978. There are however indications that EADB investment record will improve in 1981 as the March figures of 1981 has shown in the Table.

225. Inspite of the apparent poor investment performance of the EADB, it obtained a fairly good earnings record throughout the period except in 1977 when it recorded a net loss. In the three years, 1978, 1979 and 1980 when it performed very badly, its return on paid up capital were 6.26 per cent 5.25 per cent and 2.81 per cent respectively (see Table). In March 1981 this rose to 10.57 per cent. It was at the same time able to accumulate reserves and retained earnings throughout the period. This stood at US$5.4 million at the end of March 1981. The Bank was also able to transfer funds from its earnings to special funds. This amounted to US$2.3 million at the end of March 1981. EADB's long-term borrowings4/ also increased throughout the period. While it could not borrow between 1978 and 1980 it drew on earlier committed loans by the World Bank and the ADB during the three years.

B. Projects in the pipeline as at 31 July 1981

226. There were thirty four projects in the pipeline in the three Partner States as at 31 July 1981 and the total projects cost was US$403 million. EADB's share of the total cost, that is, the amount requested from EADB was US$48.7 million or 12.08 per cent of the total project cost. Out of these projects, ten were in Tanzania. These amounted to US$125 million. EADB's share of this amount was US$14.5 million or 11.06 per cent. In Kenya, there were 13 projects in the pipeline amounting to US$225.9 million. EADB's share of this was US$13.9 million or 6.14 per cent. In Uganda, there were 11 projects in the pipeline with a total cost of US$52.1 million while EADB's share of this cost was US$20.3 million or 38.9 per cent of the cost. The details of the projects in the pipeline in the three Partner States are shown in Annex VI, Table 1.

4/ Since its inception the EADB has raised two loans from ADB, UA 2 000 000 and 5 000 000 (equivalent to US$7 [illegible]00 000 at current rates), two loans from IBRD, US$8 000 000 and US$15 000 000 and three loans from SIDA Skr. 25 000 000, 30 000 000 and 10 000 000 (equivalent to US$[illegible] 400 000 at current rates). In the case of loans from ADB, IBRD and the first loan from SIDA, guarantees were given by member States. These loans having maturities ranging from 10 to 30 years.

TABLE 1

Investment Record of EADB, 1975 to March 1981

		1975	1976	1977	1978	1979	1980	1981 a/
1.	Loans							
	Approvals	9 062	8 994	10 363	5 338	1 125	1 610	2 726 b/
	Commitments	13 978	5 857	7 625	7 200	1 625	2 553	2 726 b/
	Disbursements	7 479	9 030	5 378	7 134	1 820	3 903	1 962 b/
2.	Equity investments							
	Approvals	150	313	50	250	-	-	-
	Commitments	150	-	50	250	-	-	-
	Disbursements	150	-	228	-	-	-	-
3.	Net income	274	427	(177)	1 040	878	467	439
4.	Return on paid in capital	1.65%	2.57%	(1.07%)	6.26%	5.28%	2.81%	10.57%
5.	Reserves and retained earnings	3 667	3 470	3 556	4 497	4 977	5 097	5 425
6.	Special funds	391	718	1 008	1 390	1 851	2 209	2 320
7.	Borrowing term loans	9 832	17 790	18 189	23 096	25 891	28 377	28 501

a/ First quarter of 1981.

b/ Up to July 31, 1981.

C. Prospect for EADB

227. As mentioned above the new Charter of the EADB has widened the scope of the activities of the Bank into other economic sectors. The impact of the Bank on the economies of the member States can now be expected to increase significantly. There is also provision in the new Charter of the EADB to widen the membership of the Bank to include other States of Eastern and Southern Africa. This may be seen against the fact that the EADB has developed an institutional capability to handle national and multinational projects and has assembled a body of well-trained professionals that would enable it to respond to the needs of a wider constituency.

228. Looking to the future, the EADB has moved on two fronts to further improve its capability to assist present and prospective clients, to improve its financial policies and to enhance, its image. First, the Bank's management has been actively pursuing with a number of financial institutions the extending of concessional credits to it, within the next two years, aimed at substantially increasing the Bank's capability to finance viable new projects. Coupled with this, the Governing Council of the Bank has decided to establish an Advisory Panel to advise the Bank on its financial policies. A number of eminent persons have been invited to serve on the Advisory Panel and have accepted.

CHAPTER X

AUDIT AND VALUATION OF ASSETS AND LIABILITIES OF THE EAST AFRICAN DEVELOPMENT BANK, STATUS AND MECHANISMS FOR THEIR SETTLEMENT

229. In order to provide adequate information on the basis of which a decision could be taken on whether or not the East Afrifan Development Bank should be converted into a Subregional Development Bank, an audit and valuation of the assets and liabilities of the East African Development Bank was undertaken by an expert group.1/

(a) Balance sheet as at 31 March 1981

230. The accountants prepared a balance sheet of the East African Development Bank as at 31 March 1981. It was originally intended that the balance sheet would be prepared as at 30 June 1981, but this was not possible for a number of reasons.

231. In the opinion of the accountants, the balance sheet presented in Annex VII, Table 1 reflects a fair view of the statement of the financial condition of the Bank as at 31 March 1981 in accordance with the concept of historical costs.

232. The balance sheet reveals that, in terms of liquid funds, the Bank is healthy, having net current assets to current liabilities of more than 3 to 1. The net worth of the Bank is equivalent to US$24 359 000.

(b) Valuation of assets and liabilities

233. In the opinion of the valuation team, the depreciated replacement cost of the fixed assets (equivalent to US$9 475 000) attributed to the 31 March 1981 book value of these assets (equivalent to US$2 939 000) as per Table 1 below, represents a true estimate of these assets. The values assigned to the other assets and liabilities represent a fair and objective assessment of their worth.

1/ The Team comprising two accountants, one economist and a lawyer; visited the headquarters of the EADB in Kampala, its regional offices in Dar es Salaam and Nairobi as well as a number of projects financed by the EADB.

TABLE 1

Summary of valuation of fixed assets
(US$ 000)

	Original cost	Book value	Depreciated replacement cost
Land and buildings	3 458	2 638	9 023
Water reticulation plant	128	102	116
Furniture and fittings	430	165	275
Motor cars	80	34	61
Total	4 096	2 939	9 475

234. The accountants and the other members of the valuation team visited the plants of several of the Bank's clients and held discussions with their senior management staff. Extensive discussions were also held with the Bank's senior management as well as with the Bank's auditors. The Bank's portfolio, including its loan agreements, was scrutinized.

235. In reviewing the Bank's loan and equity portfolio, the valuation team took into account the fact that, in general, almost all the projects in the Bank's portfolio have been affected by one or more of the following constraints: lack of capital, shortage of managerial and technical skills, failure to utilize existing capacities effectively, limited size of markets, extended delays in implementation, shortage of cheap sources of power, overvalued exchange rates and a deterioration in the balance of payments of the countries which currently own the Bank. These have led to restrictions on imports of vital raw materials and spare parts. The latter problem became most acute during the course of 1980. A severe shortage of foreign exchange not only limited the operational scope of existing industries but also frequently delayed or made impossible the planned implementation of new projects.

236. The accountants were satisfied that the provision for doubtful investments equivalent to US$2 800 000 established by the Bank as at 31 March 1981 was adequate.

(c) <u>The impact of the decision by the Uganda Government to allow the Shilling to float with effect from 1 June 1981 on the assets and liabilities of EADB as at 31 March 1981</u>

237. The decision to float the Ugandan shilling from 1 June 1981 has had no impact whatsoever on the assets and liabilities of EADB as of 31 March 1981. However, to the extent that the decision has resulted in a substantial movement of the value of the Ugandan shilling away from its official base of Shs. 9.66 to the SDR (equivalent to Shs. 7.8 to the United States dollar) on or after 1 June 1981; the value of the Bank's assets and liabilities will be affected in varying degrees to the extent that Bank's holdings are held or realiseable in Uganda's shillings. The EADB is of the view that it is too early to measure this impact at the present time. In this connexion, it should be noted that EADB has already commissioned a study on the impact of the floating of the Ugandan's shilling, particularly with regard to EADB's investments in Uganda. The study is expected to begin sometime in September 1981 and be completed in about three months after commencement. Nevertheless, a tentative attempt has been made to measure this impact. The results are described below:

238. Though the Ugandan's shilling was allowed to float from 1 June 1981, its value did not change materially until 8 June 1981, in terms of US$ and other currencies but on 9 June 1981 the rate rose from Shs. 8.44 to 77 and on 11 July 1981 it was Shs. 78.30 against the US dollar. This means that the Ugandan shillings in terms of goods and services acquired from outside Uganda to be paid for in US dollars has depreciated by about ten times prior to 9 June 1981. The assets of EADB affected are those assets held or realizable in Ugandan shillings which are to be transferred in convertible or other currencies, for the purpose of settling foreign obligations namely: cash and bank balances; short-term investments; loans receivable; and interest receivable in Ugandan shillings. With regard to short-term investments and cash and bank balances in Ugandan shillings; the EADB has stated that the Bank of Uganda (Central Bank) has agreed that all project remittances payable in foreign currency before floating the Ugandan shilling will be transferred at the old rate of exchange and that the Bank of Uganda's approval amounting to US$2.75 millions (equivalent to shillings 22 million of old Ugandan shillings) has been given. This exceeds the holdings in treasury bills and cash and bank balances in Ugandan shillings. No loss would be incurred when the transfers are effected.

239. The interest receivable in Ugandan shillings as of 9 June 1981 was Ugandan Shs 6.2 million, which can either be used for meeting the expenses in Ugandan shillings or for settling the liabilities in Ugandan shillings or for both. Hence, the EADB may not incur any loss in value in respect to this item.

240. Loans receivable and equity investments by EADB less provision for possible loan losses stood at Ugandan Shs.292 million on 9 June 1981. Of this amount only Ugandan Shs. 13.73 million were actually receivable in Ugandan currency. The book value of the loss which may be incurred is equivalent to US$1.5 million. Furthermore, an additional provision equivalent to US$1 million has to be made in respect of one borrower whose anticipated default on a loan made in foreign currency has been established at old Ugandan Shs.8.9 million, but the value of which should at present be based on new shillings. In this connexion, it may be noted that all the borrowers' fixed assets are mortgaged to EADB and hence EADB is of the view that the loss may not be substantial.

241. As of 9 June 1981 the net liability of EADB to its sundry debtors and creditors was Ugandan Shs.1.8 million. The book gain on account of this would be US$0.2 million. However, to the extent that this net liability has been incurred in local currency there will be no real gain to EADB.

242. From the above analysis it can be seen that the real impact on the assets of EADB is confined only to its loan portfolio, for which an additional provision equivalent to US$2.5 million has to be made for meeting any possible losses in this respect.

(d) Supplementary financial information

243. In addition to the financial information provided, namely, a balance sheet as at 31 March 1981 (Annex VII Table 1) and a valuation of fixed assets and liabilities (Table 1), the following financial information is provided in the form of tables of the Annex VII.

(a) Comparative balance sheet at 31 December for each of the years 1976 to 1980, and at 31 March 1981 (Annex VII Table 2).

(b) Comparative profit and loss account for the same periods as in (a) above (Annex VII Table 3).

(c) Summary of financial activities (loan approvals), commitments, disbursements, income, paid-up capital, borrowing, etc.) for each of the years 1972 to 1980 and at 31 March 1981 (Annex VII Table 4)

(e) Status and mechanism for settlement of assets and liabilities of the East African Development Bank

244. The transformation of EADB into the proposed Bank will involve the settlement of the EADB's net assets between the proposed Bank and the current owners of EADB. In determining the modus operandi to be followed in this regard, consideration should be given to the most appropriate mechanism whereby an equitable settlement of the net assets of EADB could be made. Two alternatives are proposed:

(i) The proposed Bank may take over all the assets and liabilities of EADB and compensate its present owners for the net worth of the EADB;

(ii) The proposed Bank may take over only the physical assets and the present staff of EADB. The remaining assets and liabilities of EADB may be transferred to a special fund to be administered by the proposed Bank.

245. The implications and possible merits and demerits of the above alternatives are set out briefly as follows:

The first alternative involving the take-over of all the assets and liabilities of EADB by the proposed Bank and compensating its present owners for the net worth, implies that the Bank will be responsible for all the projects which are financed by EADB in the three Partner States. Moreover, since most of the borrowings from external sources against these projects are guaranteed jointly and severally by the three Partner States the Bank may become involved in negotiations with the present lenders of EADB in order to consider extending these joint and several guarantees to all eighteen members of the Bank.

246. Secondly, it may not be equitable to involve the other members of the Bank in borrowings guaranteed by the three Partner States alone in view of the fact that the projects which are financed by EADB are exclusively in the three Partner States.

247. Thirdly, the valuation of assets and liabilities of EADB was done in July-August 1981 and should the negotiations between the owners of EADB and the Bank become protracted it may be necessary to carry out another valuation since the values of assets and liabilities may change by that time. This may delay the commencement of the operations of the proposed Bank.

248. The second alternative suggests that the proposed Bank, should take over, in addition to EADB's present staff, only the physical assets which are identifiable as cash and bank balances, money at call and short notice, bank deposits and fixed assets (land, buildings, furniture and equipment, motor vehicles etc.). The remaining assets consisting mainly of projects financed by EADB in the Partner States, and of liabilities which are mainly external borrowings, guaranteed by the three countries could be transferred, as indicated above, to a special fund to be administered by the proposed Bank. Based on the valuation made, the three Partner States should be compensated by the Bank for the assets taken over in this respect. The Bank may charge a fee which should be agreed between the Bank and the three Partner States for administering the proposed 'Fund'. The three Partner States will continue to be liable for the repayment of the external borrowings and repayment of project loans financed by EADB in their respective countries, until such a time as these are fully liquidated.

CHAPTER XI

CONCLUSIONS

249. The preceding chapters of this study have dealt with the economic problems of the countries of the subregion, and the need and viability of a subregional Trade and Development Bank.

250. The analysis of socio-economic problems in Chapter II has shown that the economies are characterised by slow growth rates of GDP, low domestic savings and gross fixed capital formation, balance of payments and foreign exchange problems, heavy external debts and inadequate inflows of development finance. Subsequent chapters deal with institutional and resource gaps and the need for a Trade and Development Bank, conditions for its viability and effectiveness of its operations.

251. The purpose of this final chapter is to summarise the conclusions.

252. The study (Chapters I and II) has demonstrated that there is an urgent need for the establishment of a subregional Trade and Development Bank which, in the light of the socio-economic problems identified and the existence of institutional and resource gaps, will contribute in the mobilisation of domestic and external resources and their effective use with a view to self-reliant and self-sustaining development.

253. To be effective and viable, the Bank will require a capital stock of US$800 million during the first ten years.

In determining this amount, consideration has been given to the operational cost of the Bank, expected volume of its business transactions, ability of the member States to subscribe the required capital stock and the capacity of the Bank to raise loans from external sources. Out of the authorized capital of the Bank, it is suggested that one-third US$266.5 million be paid-in and the remaining two-third US$533.5 million be callable. In order to minimize the burden on the member States, it is suggested that the capital stock of the Bank be opened up to non-subregional member States and institutions from the commencement of its operation. The subregional member States may subscribe at least 51 per cent of the equity (i.e. US$408 million) so that they will have majority share. The remaining 49 per cent (US$392 million) may be allocated to non-subregional member States and institutions. Other possible sources of finance for the Bank are the capital surplus oil-exporting countries, and institutions such as ADB, IBRD, KFW, SIDA, BADEA, OPEC Fund, etc. These countries and institutions would be useful to the Bank as sources of paid-in and callable capital, sources of loans and guarantees, partners in co-financing and contributors to special Funds. With regards to the paid-in portion of the equity, it is further suggested that the subregional member States should pay 50 per cent of their share in convertible currency and the other 50 per cent in the national currencies of the respective member States. Thus the foreign exchange portion of the paid-in capital payable by each member State would be only one-sixth of its subscribed capital. This would to some extent alleviate the burden in foreign exchange subscriptions of the member States. The non-subregional member States and institutions would be required to pay their entire paid-in portion of the equity in convertible currencies.

254. With respect to the form and time of payment of the paid-in capital of the Bank, it is suggested that this should be spread over a period of four years, with 40 per cent payable during the first year and the balance in three equal yearly instalments.

255. The study has shown (Chapter V) that the member States have the capacity to pay the amount of US$408 million representing the subscribed capital of the Bank allocated to them. A modified ADB formula has been adopted for computing the capacity to pay. The indicators used are Gross Domestic Product and net export of goods and services.

256. The study has also demonstrated (Chapter V) that it will be necessary to have a Trade Fund of some US$70 million allocated from the ordinary sources of the Bank. However, it is suggested that such a Fund might not be feasible during the first two years of the operations of the Bank, as the Bank might not have adequate resources for this purpose since it will be operating on equity subscriptions and there is an acute shortage of trained manpower in this field in the subregion.

257. Other special funds may be required to improve the effectiveness of the Bank (Chapter V). However the creation of these funds should be delayed until the Bank has sufficient funds.

258. In the study the pros and cons of establishing a new Subregional Development Bank or converting the existing East African Development Bank into a Subregional Trade and Development Bank have been evaluated (Chapter VI).

259. The main advantages of converting the East African Development Bank are that, in addition to avoiding the proliferation of multinational finance institutions in the subregion, the larger institution will benefit from inheriting the:

(a) Physical facilities of EADB such as the ten storey headquarter building, staff houses and technical library;

(b) EADB's well-trained and experienced professional staff;

(c) Institutional capability in handling national and multinational projects;

(d) Well established external contacts with bilateral and multilateral financial institutions.

260. It should however be noted that, the transformation of the East African Development Bank into a Subregional Development Bank will be contingent on successful negotiations with the present owners. In addition to other matters, topics for negotiations will have to include the tricky issues relating to settlement of assets and liabilities.

261. Two alternatives have been suggested for the settlement of assets and liabilities of EADB. The first alternative is the takeover of all the assets and liabilities of EADB by the proposed Bank and compensating its present owners for the net worth.

262. The second alternative is that the Bank may take over only the physical assets and the present staff of EADB and compensate its present owners on the basis of the valuation made. The remaining assets and liabilities of EADB may be transformed into a special fund to be administered by the proposed Bank. The three partner States will continue to be liable for the repayment of the external borrowings guaranteed by them and also the repayment of project loans financed by EADB in their respective countries until such a time as these are fully liquidated.

263. A subregional financing institution will require policy organs and a secretariat. It is proposed in the study (Chapter VIII) that these should be:

(a) Board of Governors which will be the highest authority consisting of one governor (representing each member) and his alternate;

(b) Board of Directors consisting of seven directors out of whom five will be elected from member States of the subregion;

(c) Secretariat, under the directorship of a President (Chief Executive Officer) assisted by a Vice-President(s) and such other officers as may be necessary.

Table 1

PAYMENT BALANCES ON CURRENT ACCOUNT (MILLIONS OF US DOLLAR)

	1972	1973	1974	1975	1976	1977	1978	1979
Botswana	...	...	...	-34.1	0.5	25.9	-45.2	1.2
Ethiopia	8.1	43.2	56.0	-46.4	-32.6	-83.5	-111.1	-92.0
Kenya	-68.1	-126.0	-310.8	-228.5	-119.1	-58.3	-653.5	-477.7
Madagascar	34.7	-10.7	-42.5	-55.9	-28.9	-18.7	-81.4	-432.8
Malawi	-49.1	-27.7	-35.7	-78.9	-42.3	-37.4	-125.5	-201.7
Mauritius	15.5	0.4	54.9	17.7	-36.1	-78.5	-119.8	-137.8
Seychelles	...	...	...	...	-9.2	-8.9	-9.5	-14.2
Somalia	-7.2	-38.7	-52.2	...	-69.2	-32.8	-65.0	-205.4
Swaziland	...	...	56.7	68.2	42.5	20.0	-89.0	-70.9
Tanzania	-65.7	-107.5	-288.0	-230.0	-33.8	70.1	474.0	...
Uganda	16.5	43.0	-24.3	-56.1	43.2	68.1	-130.7	26.7
Zambia	-208.5	129.9	15.8	-721.2	-124.7	-217.2	-240.4	171.8
Zimbabwe 1/	...	...	...	-127.9	14.5	-4.7	27.6	-72.8

Source: IMF, Balance of Payments Year Book, December 1980.

1/ Reserve Bank of Zimbabwe: Quarterly Economic and Statistical Review, June 1981.

Table 2

FOREIGN EXCHANGE RESERVES OF SOME OF THE COUNTRIES OF THE SUBREGION

MILLIONS OF US DOLLAR)

	1973	1974	1975	1976	1977	1978	1979	1980
Botswana	...	...	...	72.32	96.70	146.94	261.12	334.04
Ethiopia	157.8	255.2	268.7	286.8	204.4	152.9	172.2	74.9
Kenya	197.6	191.0	169.0	272.3	504.9	338.3	519.6	466.0
Madagascar	51.3	49.2	34.5	40.0	60.6	47.9	5.0	...
Malawi	56.57	71.58	56.12	21.21	82.79	70.51	65.49	68.35
Mauritius	55.0	127.7	156.5	80.0	63.5	43.7	28.4	90.7
Seychelles	4.27	5.04	6.34	6.49	11.39	9.13	11.70	17.84
Somalia	24.9	32.1	58.3	75.0	114.9	121.0	35.4	...
Swaziland	...	11.93	43.20	69.97	91.22	112.01	110.85	153.80
Tanzania	124.0	48.2	64.1	106.4	275.0	91.9	64.3	20.3
Uganda	12.9	10.6	27.3	43.5	41.8	34.5	11.8	16.8
Zambia	185.5	150.1	123.6	70.4	52.5	35.3	74.4	78.2

Source: IMF, International Financial Statistics, 2 June 1981.

Table 4

GROSS DOMESTIC SAVINGS AS A PROPORTION OF GDP (IN PER CENT)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Angola	18.5	17.5	23.1	16.5	15.1	11.2	5.2	6.6	5.5	5.9
Botswana	4.9	25.4	27.0	29.5	25.4	30.4	24.3	17.7	19.9	15.0
Comoros	13.4	11.9	17.8	10.8	-3.3	3.1	-3.2	-2.8	-1.0	-0.7
Djibouti	12.0	15.1	15.0	13.9	8.5	4.8	7.4	5.9	1.1	0.9
Ethiopia	10.0	10.6	11.8	11.2	5.4	8.5	9.2	5.9	1.6	9.7
Kenya	20.2	19.7	14.3	21.3	21.3	17.2	19.9	23.0	19.3	21.6
Lesotho	-26.8	-45.1	-52.4	-48.4	-58.1	-81.6	-127.7	-140.1	-126.4	-113.2
Madagascar	12.0	12.1	11.0	12.3	15.9	17.3	15.4	16.2	15.5	15.5
Malawi	13.3	8.3	13.3	12.6	12.2	11.0	12.0	14.1	17.2	14.8
Mauritius	14.1	16.6	14.2	22.8	29.3	22.5	22.9	22.2	30.7	33.9
Mozambique	10.4	12.2	12.0	9.4	12.5	12.7	11.7	9.1	10.1	7.9
Seychelles	-5.6	-12.9	26.0	13.8	14.4	8.7	11.3	8.6	12.5	13.1
Somalia	7.9	8.3	12.2	2.9	-0.3	7.6	6.9	8.3	7.3	7.0
Swaziland	32.2	28.2	16.3	28.7	26.1	17.8	23.8	36.8	39.5	36.2
United Republic of Tanzania	18.1	16.3	20.4	15.2	8.4	8.4	17.4	16.0	8.3	8.2
Uganda	16.4	10.4	11.8	12.5	11.5	7.4	5.6	5.0	12.3	11.9
Zambia	43.9	42.9	46.0	46.9	48.8	45.7	52.5	56.5	56.4	56.4
Zimbabwe	21.6	19.6	21.2	25.7	27.6	23.1	22.5	18.3	14.6	13.3

Note: Minus sign implies expenditure is more than GDP.

Table 5

GROSS FIXED CAPITAL FORMATION AS A PROPORTION OF GDP (IN PER CENT)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Angola	13.1	14.2	14.0	13.4	11.5	9.3	10.8	11.5	12.7	13.0
Botswana	33.4	47.6	51.8	54.5	51.1	48.9	52.1	60.4	58.4	71.0
Comoros	26.6	25.2	28.6	30.0	32.2	27.7	19.0	20.8	20.5	20.8
Djibouti	14.0	26.2	26.3	24.0	24.8	12.9	10.5	8.0	7.6	7.7
Ethiopia	11.8	11.5	7.9	6.9	7.3	6.8	6.5	6.2	6.4	6.4
Kenya	19.6	22.0	20.1	18.1	15.9	15.3	14.7	16.0	18.4	17.9
Lesotho	9.9	11.7	13.1	24.7	15.2	13.7	13.2	13.2	12.9	13.3
Madagascar	14.6	15.9	13.1	14.0	13.8	13.8	12.5	12.8	12.7	13.5
Malawi	22.9	16.3	19.4	16.3	17.8	18.8	15.7	14.3	18.4	13.1
Mauritius	13.8	14.9	15.3	20.7	19.6	24.4	23.2	22.8	23.1	22.0
Mozambique	13.2	13.0	12.6	11.3	9.2	7.5	8.5	8.7	8.6	8.6
Seychelles	39.7	40.4	58.6	48.7	44.0	41.7	47.7	42.2	43.5	46.2
Somalia	15.4	15.9	16.6	18.1	21.0	21.1	22.8	24.3	25.6	25.3
Swaziland	22.8	23.9	22.8	22.5	20.0	18.7	19.6	16.9	16.3	15.5
United Republic of Tanzania	20.5	22.0	20.5	18.3	19.0	18.7	18.4	17.7	16.7	16.7
Uganda	16.8	17.4	12.5	11.3	12.1	8.9	7.3	6.1	7.6	7.6
Zambia	27.1	31.7	29.9	28.7	33.8	29.8	20.8	20.3	21.0	21.0
Zimbabwe	16.2	16.8	16.9	21.0	21.6	21.4	16.7	15.9	12.7	12.1

Table 6

OUTSTANDING EXTERNAL PUBLIC DEBT AND DEBT SERVICE PAYMENTS OF SOME COUNTRIES OF THE SUBREGION (MILLIONS OF US DOLLAR)

		1973	1974	1975	1976	1977	1978	1979
Botswana:	Disbursed	114.9	134.1	147.3	165.2	180.9	120.7	135.6
	Debt Service	2.5	3.1	6.9	4.3	5.8	8.2	10.1
Comoros:	Disbursed	1.0	2.7	3.8	27.6	37.4	45.2	52.8
	Debt Service	0.1	0.1	0.4	0.5	0.7	1.0	1.2
Ethiopia:	Disbursed	257.7	292.5	353.4	412.9	457.4	511.0	520.0
	Debt Service	22.1	21.2	26.2	25.0	26.0	26.3	26.3
Kenya:	Disbursed	445.9	517.1	570.3	701.8	918.4	1,086.6	1,429.0
	Debt Service	29.7	34.3	36.2	49.4	57.3	108.2	104.3
Lesotho:	Disbursed	8.3	10.2	14.1	16.1	24.1	32.7	51.8
	Debt Service	0.4	0.3	0.3	0.5	0.5	1.2	1.4
Madagascar:	Disbursed	116.6	137.1	168.1	180.6	212.4	277.9	347.7
	Debt Service	12.1	9.7	11.5	12.4	12.8	14.9	18.0
Malawi:	Disbursed	201.2	227.1	243.5	256.9	300.3	399.3	423.3
	Debt Service	11.0	14.3	16.5	14.6	12.6	23.5	27.0
Mauritius:	Disbursed	34.8	40.9	45.7	50.7	70.6	151.9	226.9
	Debt Service	2.4	3.0	6.0	3.4	6.5	10.6	18.8
Somalia:	Disbursed	126.8	174.1	227.5	285.6	383.8	500.0	545.7
	Debt Service	2.6	3.5	3.9	2.9	3.7	4.7	2.1
Swaziland:	Disbursed	36.9	36.2	33.7	40.8	52.3	103.1	146.2
	Debt Service	10.0	4.4	3.3	2.0	2.2	4.0	5.7
Tanzania:	Disbursed	463.7	619.7	797.6	907.6	1,079.4	1,094.7	1,153.4
	Debt Service	31.9	23.4	28.8	27.7	36.1	38.2	39.4
Uganda:	Disbursed	167.3	184.3	187.4	213.2	220.0	252.2	245.0
	Debt Service	22.3	11.6	7.3	6.4	12.8	4.4	2.7
Zambia:	Disbursed	655.2	762.2	1,098.8	1,251.1	1,391.7	1,396.3	1,558.6
	Debt Service	362.7	105.6	88.5	112.7	181.0	191.4	300.6

Source: IBRD, World Debt Tables, Vol. II, October 1980.

Table 1

ESTIMATING THE RESOURCE GAP BASED ON IBRD PROJECTIONS

(MILLIONS OF US DOLLAR)

Year	Group I 1/		Group II 2/		Group III 3/	
	GDP	Investment	GDP	Investment	GDP	Investment
1982	16,177	2,232	23,269	5,514	2,276	533
1983	16,873	2,328	24,805	5,879	2,438	570
1984	17,598	2,428	26,442	6,266	2,611	611
1985	18,355	2,532	28,187	6,680	2,796	654
1986	19,144	2,642	30,048	7,121	2,995	701
1987	19,968	2,756	32,031	7,591	3,208	750
1988	20,826	2,874	34,145	8,092	3,435	804
1989	21,722	2,998	36,339	8,627	3,679	861
1990	22,656	3,127	38,801	9,196	3,941	922
1991	23,630	3,261	41,362	9,803	4,220	987
Total 1982-91	196,949	27,178	315,489	74,769	31,599	7,393

1/ Countries with 1978 GDP per capita of less than $265. Includes Comoros, Ethiopia Madagascar, Malawi, Mozambique, Somalia and Tanzania. GDP projections based on 1978 total of $15,670 million and growth rate of 4.3% per annum. Investment GDP coefficient projected as 13.8% external gap projected as 2.5% of GDP.

2/ Countries with 1978 GDP per capita of between $265 and $520. Includes Angola, Djibout, Kenya, Lesotho, Uganda, Zambia and Zimbabwe. GDP projections based on 1978 total of $18,020 million and growth rate of 6.6% per annum. Investment GDP coefficient projected as 23.7%. External gap projected as 4% of GDP.

3/ Countries with 1978 GDP per capita of between $521 and $1075. Includes Botswana, Mauritius, Seychelles and Swaziland. GDP projection based on 1978 total of $1,730 million and growth rate of 7.1% per annum. Investment GDP coefficient projected as 23.4%. External gap projected as 2.8% of GDP.

Note: Total External Gap = (.025x196,949)+(.04x315,489)+(.028x31,599)
= 4,924 + 12,620 + 885
= 18,429

Table 2

TOTAL AND PER CAPITA LENDING BY IBRD, ADB, ASDB AND ADB 1/

	1973		1974		1975		1976	
	Total ($m)	Per Capita ($)	Total ($m)	Per Capita ($)	Total ($m)	Per Capita ($)	Total ($m)	Per Capita ($)
IBRD 2/	345.0	1.27	708.0	2.55	970.0	3.41	1022.2	3.52
IDB	453.0	1.58	635.6	2.15	646.2	2.13	771.6	2.48
ASDB 3/	303.4	0.56	374.4	0.67	494.4	0.86	540.0	0.92
ADB	42.5	0.15	88.1	0.30	103.1	0.33	96.5	0.31

Source: African Development Bank: Resource Mobilization for the African Development Bank, 1977-1986.

1/ Excluding concessional loans.

2/ Lending to African countries only.

3/ Note should be taken of the fact that India, which of its own accord does not borrow from ASDB, is excluded from these estimates.

Table 3

PER CAPITA LENDING AND CORRESPONDING TOTAL LENDING OF PROPOSED SUBREGIONAL BANK

Year	Population 1/ (Million)	$0.50 Per Capita Lending $ (Million)	$1.00 Per Capita Lending ($ million	$2.00 Per Capita Lending ($ million)	$2.50 Per Capita Lending ($ million)
1982	139.90	69.95	139.90	279.80	349.75
1983	143.68	71,84	143.68	287.36	359.20
1984	147.55	73.78	147.55	295.10	368.88
1985	151.54	75.78	151.54	303.08	378.86
1986	155.63	77.82	155.63	311.26	389.08
1987	159.83	79.92	159.83	319.66	397.58
1988	164.15	82.08	164.15	328.30	410.38
1989	168.58	84.29	168.58	337.16	421.45
1990	173.13	86.57	173.13	346.26	432.83
1991	177.81	88.91	177.81	355.62	444.53
	1,581.80	790.90	1,581.80	3,163.60	3,954.50

1/ Based on 1978 total subregional population of 125.76 million and a growth rate of 2.7% per annum.

Table 1

BREAKDOWN OF RECOMMENDED CAPITAL ALLOCATIONS

	(1) Total allocation 1/	(2) Paid-in [1/3 of (1)]	(3) Callable [2/3 of (1)]	(4) Required in Convertible currency [1/2 of (3)]
Angola	26.88	8.96	17.92	4.48
Botswana	8.95	2.98	5.97	1.49
Comoros	2.97	0.99	1.98	0.50
Djibouti	3.86	1.29	2.57	0.65
Ethiopia	36.87	12.29	24.58	6.15
Kenya	59.40	19.80	39.60	9.90
Lesotho	6.72	2.24	4.48	1.12
Madagascar	27.03	9.01	18.02	4.51
Malawi	14.63	4.88	9.75	2.44
Mauritius	12.99	4.33	8.66	2.17
Mozambique	18.38	6.13	12.25	3.07
Seychelles	2.97	0.99	1.98	0.50
Somalia	8.17	2.72	5.45	1.36
Swaziland	6.76	2.25	4.51	1.13
Tanzania	45.26	15.09	30.19	7.55
Uganda	48.41	16.14	32.29	8.07
Zambia	34.45	11.48	22.97	5.74
Zimbabwe	43.21	14.40	28.81	7.20

1/ Corresponds to column (6) in Table 5 of Annex III.

Table 2

ALLOCATIONS BASED ON ADB SUBSCRIPTIONS
AND MODIFIED ADB FORMULA

Country	ADB Shares[1]	By ADB Shares	By modified ADB formula
Angola	1,908	26.85	27.30
Botswana	360	5.06	7.59
Comoros	200	2.82	1.02
Djibouti	200	2.82	2.00
Ethiopia	3,072	43.21	38.27
Kenya	2,782	39.13	63.04
Lesotho	318	4.49	5.14
Madagascar	1,400	19.71	27.46
Malawi	716	10.08	13.83
Mauritius	1,197	16.97	12.04
Mozambique	2,000	28.11	17.95
Seychelles	200	2.82	1.02
Somalia	760	10.69	6.73
Swaziland	636	8.94	5.18
Tanzania	2,506	35.25	47.49
Uganda	1,295	18.20	50.96
Zambia	4,468	16.83	35.62
Zimbabwe	5,000	70.30	45.25

1/ Subscriptions as at July 15, 1980. Excludes Voluntary Subscriptions.

Table 3

MODIFIED ADB ASSESSMENT [1]

Country	Share of Population [3]	Assessable Income	Net Exports (1978)	Scale of Assessment	Amount ($ million)
Angola	0.053[illegible]	1,893.4	n.a [2]	0.0669	27.30
Botswana	0.0059	457.3	338.2	0.0186	7.59
Comoros	0.0031	69.8	n.a [2]	0.0025	1.02
Djibouti	0.0025	139.7	n.a [2]	0.0049	2.00
Ethiopia	0.2453	2,747.1	389.2	0.0938	38.27
Kenya	0.1201	4,249.9	1,464.2	0.1545	63.04
Lesotho	0.0101	356.4	n.a [2]	0.0126	5.14
Madagascar	0.0656	1,915.5	446.1	0.0673	27.46
Malawi	0.0457	963.8	226.9	0.0339	13.83
Mauritius	0.0073	745.5	451.7	0.0295	12.04
Mozambique	0.0787	1,253.0	n.a [2]	0.0440	17.95
Seychelles	0.0005	69.9	n.a [2]	0.0025	1.02
Somalia	0.0296	456.1	140.1	0.0165	6.73
Swaziland	0.0042	308.7	242.1	0.0127	5.18
Tanzania	0.1334	3,362.4	619.7	0.1164	47.49
Uganda	0.0982	3,715.4	342.5	0.1249	50.96
Zambia	0.0419	2,424.0	757.4	0.0873	35.62
Zimbabwe	0.0547	3,131.4	n.a [2]	0.1109	45.25

[1] Computed using Table 4 of Annex III and formula described in text.

[2] Data not available but assumed to be equal to 25% of country's assessable income.

(N.B. Net exports equal 25% of assessable income of the average for the eleven countries with complete data).

[3] Mid 1978 population of subregion.

Table 4

BASIC INDICATORS

Country	1978 GNP at market prices (US $ Millions) 1/	Mid-1978 Population 1/	1978 Exports of Goods & Services 2/	Debt Service ratios 3/
~~Angola~~	2,000	6,739	n.a. 4/	n.a.
Botswana	460	747	346.9	2.5
Comoros	70	390	n.a.	10.8
Djibouti	140	320	n.a.	n.a.
Ethiopia	3,640	31,011	420.8	7.5
Kenya	4,830	15,187	1,596.7	8.3
Lesotho	360	1,279	n.a.	1.9
Madagascar	2,050	8,298	461.2	3.2
Malawi	1,010	5,780	248.6	8.7
Mauritius	760	918	462.8	2.4
Mozambique	1,360	9,945	n.a.	n.a.
Seyechelles	70	63	n.a.	n.a.
Somalia	470	3,743	151.7 5/	3.7
Swaziland	310	526	246.0 5/	1.6
Tanzania	3,880	16,871	669.2 5/	7.4
Uganda	4,120 6/	12,421	350.2	2.2.
Zambia	2,530	5,295	956.3	20.8
Zimbabwe	3,320	6,913	n.a.	n.a.

1/ Data from IBRD: 1979 World Bank Atlas, Washington, D.C. 19

2/ Data from IMF: Balance of Payments Yearbook 1979 Washington D.C. except for data for Somalia, Swaziland and Tanzania.

3/ Data from IBRD: World Development Report: 1980 Wasington, D.C. 1980

4/ n.a. = not available

5/ Data from IMF: August 1980 International Financial Statistics, Washington D.C. 1980

6/ Estimate using data from various sources.

Table 5

CAPITAL ALLOCATIONS BASED ON MINIMUM SUBSCRIPTIONS

($ million)

	1% Minimum subscription			1/2% Minimum subscription		
Country	Uniform Allocation (1)	+ Assessed Allocation 1/ = (2)	Total allocation (3)	Uniform allocation (4)	+ Assessed allocation 2/ = (5)	Total allocation (6)
Angola	4.08	22.38	26.46	2.04	24.84	26.88
Botswana	4.08	6.22	10.30	2.04	6.91	8.95
Comoros	4.08	0.83	4.91	2.04	0.93	2.97
Djibouti	4.08	1.64	5.72	2.04	1.82	3.86
Ethiopia	4.08	31.38	35.46	2.04	34.83	36.87
Kenya	4.08	51.69	55.77	2.04	57.36	59.40
Lesotho	4.08	4.22	8.30	2.04	4.68	6.72
Madagascar	4.08	22.52	26.60	2.04	24.99	27.03
Malawi	4.08	11.34	15.42	2.04	12.59	14.63
Mauritius	4.08	9.87	13.95	2.04	10.95	12.99
Mozambique	4.08	14.72	18.80	2.04	16.34	18.38
Seychelles	4.08	0.83	4.91	2.04	0.93	2.97
Somalia	4.08	5.52	9.60	2.04	6.13	8.17
Swaziland	4.08	4.25	8.33	2.04	4.72	6.76
Tanzania	4.08	38.94	43.02	2.04	43.22	45.26
Uganda	4.08	41.79	45.87	2.04	46.37	48.41
Zambia	4.08	29.21	33.29	2.04	32.41	34.45
Zimbabwe	4.08	37.07	41.15	2.04	41.17	43.21

1/ Total assessed allocation = $408m - ($4.08m x 18) = $334.56m.

2/ Total assessed allocation = $408m - (2.04 x 18) = $371.28m.

Table 6

PROPOSED SCHEDULE OF PAYMENTS IN CONVERTIBLE CURRENCIES[1]

Country	Year 1 (40% of Required payment)	Year 2 (20% of Required payment)	Year 3 (20% of Required payment)	Year 4 (20% of Required payment)
Angola	1.792	0.896	0.896	0.896
Botswana	0.596	0.298	0.298	0.298
Comoros	0.200	0.100	0.100	0.100
Djibouti	0.260	0.130	0.130	0.130
Ethiopia	2.460	1.230	1.230	1.230
Kenya	3.960	1.980	1.980	1.980
Lesotho	0.448	0.224	0.224	0.224
Madagascar	1.804	0.902	0.902	0.902
Malawi	0.976	0.488	0.488	0.488
Mauritius	0.868	0.434	0.434	0.434
Mozambique	1.228	0.614	0.614	0.614
Seychelles	0.200	0.100	0.100	0.100
Somalia	0.436	0.218	0.218	0.218
Swaziland	0.452	0.226	0.226	0.226
Tanzania	3.020	1.510	1.510	1.510
Uganda	3.228	1.614	1.614	1.614
Zambia	2.296	1.148	1.148	1.148
Zimbabwe	2.880	1.440	1.440	1.440

[1] Calculations based on Table 1 of Annex III and assumptions made in text.

Table 7

PROJECTED EXPORT OF GOODS AND SERVICES
(IN MILLIONS OF 1979 US DOLLARS)

	1982	1983	1984	1985
Angola	5,767.7	6,963.1	8,394.7	10,104.9
Botswana	364.1	390.4	418.4	448.5
Comoros	14.6	15.1	15.3	15.9
Djibouti	...	...	...	...
Ethiopia	455.1	458.3	461.5	464.7
Kenya	1,824.2	1,964.9	2,116.7	2,280.0
Lesotho	21.0	21.7	22.3	23.2
Madagascar	...	...	...	...
Malawi	410.6	443.5	479.0	518.4
Mauritius	982.1	1,075.5	1,184.5	1,389.7
Mozambique	783.9	899.1	1,032.2	1,183.8
Seychelles	...	...	...	...
Somalia	141.4	144.1	146.9	149.9
Swaziland	342.4	381.1	425.5	477.6
Tanzania	1,072.8	1,113.5	1,155.8	1,199.7
Uganda	463.4	477.2	491.6	506.3
Zambia	1,640.6	1,712.1	1,786.9	1,864.6
Zimbabwe	4,572.9	4,994.7	5,474.2	6,017.7

Source: ECA and UNCTAD Secretariats Projections.

Table 8

GDP AT MARKET PRICES
(IN MILLIONS OF 1979 US DOLLARS)

	1982	1983	1984	1985
Angola	3,643.6	3,848.3	4,076.0	4,328.2
Botswana	1,359.3	1,436.7	1,518.9	1,605.5
Comoros	108.3	113.7	116.5	119.6
Djibouti	...	...	...	...
Ethiopia	5,895.2	6,178.2	6,474.6	6,785.4
Kenya	7,363.9	7,792.6	8,245.9	8.725.9
Lesotho	379.7	403.7	429.0	456.1
Madagascar	...	...	...	...
Malawi	1,386.6	1,482.1	1,584.4	1,693.7
Mozambique	3,481.7	3,769.3	4,095.5	4,472.0
Seychelles	...	...	...	...
Somalia	1,313.5	1,384.2	1,459.0	1,537.8
Swaziland	380.8	411.7	445.3	482.1
Tanzania	5,029.2	5,285.6	5,555.2	5,838.5
Uganda	6,528.1	6,841,3	7,169.5	7,513.8
Zambia	3,928.1	4,110.9	4,301.9	4,502.1
Zimbabwe	3,065.3	3,104.3	3.137.0	3,181.4

Source: ECA and UNCTAD Secretariats Projections.

Table 9

ASSUMED PAYMENTS OF CONVERTIBLE CURRENCY SUBSCRIPTIONS
TO PROJECTED EXPORTS OF GOODS AND SERVICES[1/]
(In per cent)

	1982	1983	1984	1985
Angola	0.03	0.01	0.01	0.008
Botswana	0.16	0.08	0.07	0.06
Comoros	1.37	0.66	0.65	0.006
Djibouti	...	...	...	...
Ethiopia	0.54	0.27	0.27	0.26
Kenya	0.22	0.10	0.09	0.08
Lesotho	2.13	1.03	1.00	0.97
Madagascar	...	...	...	...
Malawi	0.24	0.11	0.10	0.10
Mauritius	0.09	0.04	0.04	0.04
Mozambique	0.16	0.07	0.06	0.06
Seychelles	...	...	...	...
Somalia	0.31	0.15	0.15	0.14
Swaziland	0.13	0.06	0.05	0.04
Tanzania	0.28	0.14	0.13	0.12
Uganda	0.70	0.34	0.33	0.28
Zambia	0.14	0.07	0.06	0.06
Zimbabwe	0.06	0.03	0.03	0.02

1/ Computations based on Table 7 of Annex III. In this table, 1982 corresponds to year 1.

Table 10

ASSUMED PAYMENTS OF CONVERTIBLE CURRENCY SUBSCRIPTIONS TO PROJECTED GDP 1/

(In per cent)

	1982	1983	1984	1985
Angola	0.05	0.02	0.02	0.02
Botswana	0.04	0.02	0.02	0.02
Comoros	0.18	0.09	0.09	0.08
Djibouti	...	...	...	...
Ethiopia	0.04	0.02	0.02	0.02
Kenya	0.06	0.03	0.02	0.02
Lesotho	0.12	0.06	0.05	0.04
Madagascar	...	...	...	...
Malawi	0.07	0.03	0.03	0.02
Mauritius	0.07	0.03	0.03	0.02
Mozambique	0.03	0.02	0.01	0.02
Seychelles	...	...	...	...
Somalia	0.03	0.02	0.01	0.02
Swaziland	0.12	0.05	0.05	0.04
Tanzania	0.06	0.03	0.03	0.02
Uganda	0.05	0.02	0.02	0.02
Zambia	0.06	0.03	0.03	0.02
Zimbabwe	0.10	0.05	0.05	0.04

1/ Computations based on Table 7 of Annex III. In this table, 1982 corresponds to year 1.

Table 11

ESTIMATED DEBT SERVICE PAYMENTS

(In thousands of US dollars)

	1982	1983	1984	1985
Angola	...	...	...	...
Botswana	32,038	32,893	30,079	14,279
Comoros	1,417	1,504	2,448	2,173
Djibouti	...	...	...	...
Ethiopia	46,930	45,622	48,692	51,459
Kenya	241,626	241,104	239,802	251,179
Lesotho	6,128	6,296	3,512	4,482
Madagascar	48,350	53,289	53,292	47,058
Malawi	65,893	63,806	57,150	45,250
Mauritius	46,756	53,755	51,668	44,855
Mozambique	...	...	...	...
Seychelles	...	...	...	...
Somalia	40,016	56,767	55,987	57,193
Swaziland	20,245	21,991	21,853	21,816
Tanzania	90,506	98,060	110,623	109,431
Uganda	30,792	26,326	26,007	23,862
Zambia	208,250	196,473	173,696	163,759
Zimbabwe	...	...	...	...

Source: IBRD, World Debt Tables, Vol. II, October 31, 1980.

Table 12

RATIOS OF ESTIMATED DEBT SERVICE PAYMENTS TO PROJECTED EXPORT OF GOODS AND SERVICES1/

(In per cent)

	1982	1983	1984	1985
Angola	...	...	...	...
Botswana	8.8	8.4	7.2	3.2
Comoros	9.7	10.0	16.0	13.7
Djibouti	...	...	...	...
Ethiopia	10.3	10.0	10.6	11.1
Kenya	13.2	12.3	11.3	11.0
Lesotho	29.2	29.0	15.7	19.3
Madagascar	...	...	...	...
Malawi	16.0	14.4	11.9	8.7
Mauritius	4.8	5.0	4.4	3.2
Mozambique	...	...	...	...
Seychelles	...	...	...	...
Somalia	28.3	39.4	38.1	38.2
Swaziland	5.9	5.8	5.1	4.6
Tanzania	8.4	8.8	9.6	9.1
Uganda	6.6	5.5	5.3	4.7
Zambia	12.7	11.5	9.7	8.8
Zimbabwe	...	...	...	...

1/ Computations based on Tables 7 and 11 of Annex III.

Table 1

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK
PROJECTED PROFIT AND LOSS ACCOUNT
(MILLIONS OF US DOLLAR)

Year	1	2	3	4	5
Income loan interest	-	0.75	3.90	9.90	17.70
Income from short-term investments	2.50	5.25	2.75	6.50	7.50
Other income	-	0.25	0.50	0.75	0.90
Total income	2.50	6.25	7.15	17.15	26.10
Expenditure					
Finance cost	-	-	0.90	2.25	4.05
Staff and administration expenses	1.50	3.00	4.80	6.30	7.20
Depreciation	0.09	0.16	0.25	0.33	0.40
	1.59	3.16	5.95	3.88	11.65
Less management fees from Trade Fund			1.20	2.10	2.40
Total expenditure	1.59	3.16	4.75	6.78	9.25
Net profit	0.91	3.09	2.40 1/	10.37	16.85
Cumulative net profit	0.91	4.00	6.40	16.77	33.62
Return on paid-in capital	1.69%	3.81%	1.5%	4.95%	7.02%

1/ US$70 million transferred from ordinary resources to Trade Fund, hence less net profit.

Table 2

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK
PROJECTED BALANCE SHEET
(MILLION OF US DOLLAR)

Year	1	2	3	4	5
Net current assets	54.38	71.59	62.47	76.63	79.34
Loans	-	12.50	52.50	112.50	182.50
Trade fund			70.00	70.00	70.00
Fixed assets	0.53	0.91	1.43	1.64	1.78
Total	54.91	85.00	186.40	260.77	333.62
Financed by share capital	54.00	81.00	160.00	214.00	240.00
Retained earnings	0.91	4.00	6.40	16.77	33.62
	54.91	85.00	166.40	230.77	273.62
Long-term borrowings	-	-	20.00	30.00	60.00
Total	54.91	85.90	186.40	260.77	333.62
Debt/Equity	-	-	0.12	0.13	0.22
Undisbursed commitments	-	37.5	57.5	67.5	77.5

Table 3

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

PROJECTED SOURCE AND APPLICATION OF FUNDS

(MILLIONS OF US DOLLAR)

Year	1	2	3	4	5	1-5	%
Source of Funds							
Funds generated from operations	1.00	3.25	2.65	10.70	17.25	34.85	10
Receipts on equity contribution	54.00	27.00	79.00	54.00	26.00	240.00	72
Long-term borrwings	-	-	20.00	10.00	30.00	60.00	18
Total source of Funds	55.00	30.25	101.65	74.70	73.25	334.85	100
Application of Funds							
Loan disbursements	-	12.50	40.00	60.00	70.00	182.50	54
Trade fund	-	-	70.00	-	-	70.00	21
Fixed assets	0.62	0.54	0.77	0.54	0.54	3.01	1
Changes in the working capital	54.38	17.21	(9.12)	14.16	2.71	79.34	24
Total application of Funds	55.00	30.25	101.65	74.70	73.25	334.85	100

Table 4

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

PROJECTED PROFIT AND LOSS ACCOUNT

(MILLIONS OF US DOLLAR)

Year	1	2	3	4	5
Income					
Interest on loans	5.17	7.42	12.48	19.65	28.16
Short-term investment income	1.50	5.50	3.50	7.00	10.00
Other income	0.65	0.75	1.25	1.60	1.95
Total income	7.32	13.67	17.23	28.25	40.11
Expenditure					
Finance cost	1.97	1.84	3.34	6.32	9.85
Staff and amdministration expenses	2.40	3.60	5.40	6.90	7.80
Depreciation	0.53	0.57	0.59	0.61	0.62
Provision for possible loan loss	0.40	0.35	0.31	0.27	0.23
	5.30	6.36	9.64	14.60	18.50
Less management fees from Trade Fund			1.20	2.10	2.40
Total expenditure	5.30	6.36	8.44	12.50	16.10
Net profit	2.02	7.31	8.79	15.75	24.01
Cumulative net profit	2.02	9.33	18.12	33.87	57.88
Return on paid-in capital	3.54%	5.37%	4.63%	6.50%	9%

Table 5

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

PROJECTED BALANCE SHEET

(MILLIONS OF US DOLLAR)

Year	1	2	3	4	5
Net current assets	33.32	86.87	63.73	94.60	116.04
Loans (net)	49.42	80.07	133.01	198.99	274.26
Investments (equity)	2.15	2.15	2.15	2.15	2.15
Trade Fund			70.00	70.00	70.00
Fixed assets (net)	9.15	8.83	9.39	7.98	7.48
Total	94.04	177.92	277.28	373.72	469.93
Finance by:					
Share capital	57.00	136.00	189.00	242.00	266.50
Retained earnings	2.02	9.33	18.12	33.87	57.88
	59.02	145.33	207.12	275.87	324.38
Long-term borrowings	35.02	32.59	70.16	97.85	145.55
Total	94.04	177.92	277.28	373.72	469.93
Debt/Equity	0.59	0.22	0.34	0.36	0.45
Undisbursed commitments	30.00	55.00	67.50	77.50	87.50

Table 6

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

PROJECTED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(MILLIONS OF US DOLLAR)

Year	1	2	3	4	5	1 - 5	%
Source of Funds							
Funds generated from operations	2.95	8.23	9.69	16.63	24.86	62.36	13
Equity subscriptions	57.00	79.00	53.00	53.00	24.50	266.50	57
Loan repayments	3.50	4.00	4.25	3.75	4.50	20.00	4
New long-term borrowings	-	-	40.00	30.00	50.00	120.00	26
Total source of Funds	63.45	91.23	106.94	103.38	103.86	468.86	100
Application of Funds							
Loan disbursements	10.00	35.00	57.50	70.00	80.00	252.50	54
Repayment of borrowings	2.43	2.43	2.43	2.31	2.30	11.90	3
Trade Fund			70.00			70.00	15
Increase in fixed assets	0.10	0.25	0.15	0.20	0.12	0.82	
Changes in working capital	50.92	53.55	(23.14)	30.87	21.44	133.64	28
Total application of Funds	63.45	91.23	106.94	103.38	103.86	468.86	100

Table 7

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK
STATEMENTS OF MANPOWER PLANNING (PROFESSIONALS ONLY)
(BASED ON TRANSFORMATION OF EADB)

YEAR	1	2	3	4	5
President	1	1	1	1	1
Vice-President	1	1	1	1	1
Directors	4	4	4	4	4
Regional Managers	3	3	3	3	3
Treasurer	1	1	1	1	1
Chief Accountant	1	1	1	1	1
Manager, General Services	1	1	1	1	1
Manager, Personnel and Training	1	1	1	1	1
Manager, Projects Appraisal	1	1	1	1	1
Manager Projects Supervision	1	1	1	1	1
Manager, Research	1	1	1	1	1
Manager, Trade Financing			1	1	1
Internal Auditor	1	1	1	1	1
Financial Analysts	6	6	8	10	12
Economists	6	6	8	10	12
Engineers Industrial	3	3	4	5	6
Experts in Trade Financing	-	-	1	2	2
Librarian	1	1	1	1	1
Other Officers	10	17	25	34	44
Total	43	50	65	80	95

Table 8

YEAR	1	2	3	4	5
President	1	1	1	1	1
Vice-President			1	1	1
Directors	3	4	4	4	4
Managers (zones)	-	3	3	3	3
Treasurer	-	1	1	1	1
Chief Accountant	-	1	1	1	1
Internal Auditor	-	-	1	1	1
Manager, General Services	1	1	1	1	1
Manager, Personnel and Training		1	1	1	1
Manager, Project appraisal	-	1	1	1	1
Manager Research	-	-	1	1	1
Manager Project Supervision	-	-	1	1	1
Manager, Trade Financing	-	-	1	1	1
Financial Analyst	2	3	5	7	9
Economists	2	3	5	7	9
Engineers (Industrial)	1	1	2	3	4
Experts in Trade Financing	-	-	1	2	2
Librarian	-	-	1	1	1
Junior Officers	5	11	18	28	40
Total	15	31	50	66	83

ORGANIZATION CHART OF THE PROPOSED BANK

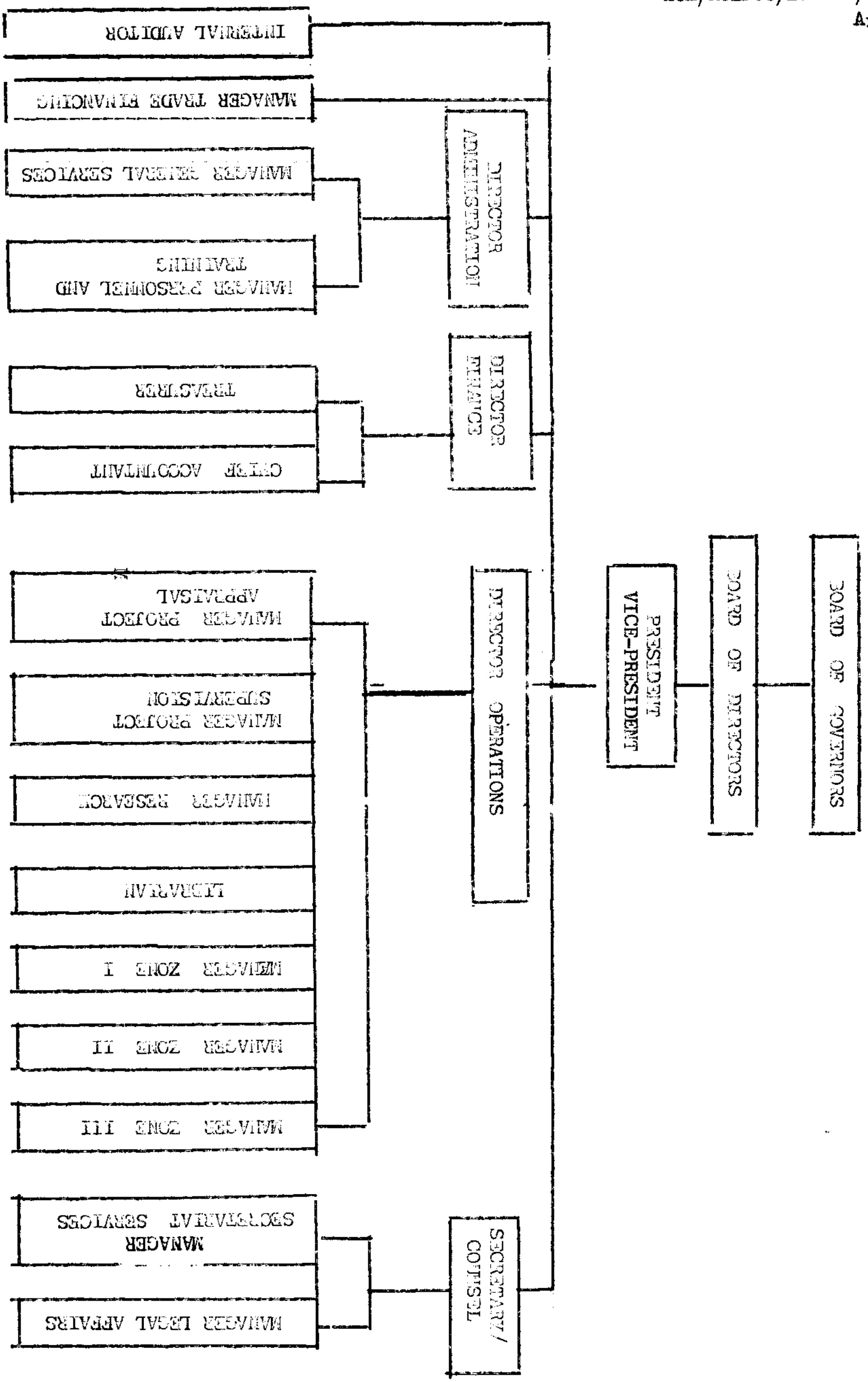

Table 1

(b) PROJECTS IN THE PIPELINE AS OF 31 JULY 1981

Economic activity	New/ Expansion	Total project cost US$'000	Amount requested from EADB US$'000 a/
Tanzania			
1. Production of decorated cement tiles	New	950	450
2. Soft drinks bottling	"	4 875	1 925
3. Production of methanol water	"	750	450
4. Billet casting	Expansion	43 190	3 475
5. Manufacture of soap	New	7 000	700
6. Manufacture of sanitary napkins	"	840	465
7. Container glassmaking	"	54 135	2 500
8. Manufacture of vacuum dried salt	Expansion	8 750	2 500
9. Production of animal feed	New	490	290
10. Stone aggregate making	"	1 565	750
11. Sawmill	"	565	215
12. Manufacture of mosquito coils	"	1 000	475
13. Manufacture of peanut based margarine	"	940	315
		125 040	14 510

a/ All amounts requested are in foreign currency except loan request No. 3 in Tananzania.

Economic activity	New/ Expansion	Total project cost US$'000	Amount requested from EADB US$'000
Kenya			
1. Glass manufacturing plant	New	3 750	1 250
2. Brewing beer and related products	"	16 250	1 875
3. Production of ethanol and power alcohol	"	66 250	1 250
4. Manufacture of ceramic products (household and industrial)	"	22 875	1 250
5. Manufacture of cold steel coils	"	33 750	2 500
6. Production of metal pressings and stampings	"	12 200	1 250
7. Fabrication of parts	Expansion	1 375	875
8. Manufacture of glass containers	New	24 000	1 250
9. Manufacture of aluminium foil liquid containers		37 500	1 125
10. Production of ceramic tiles		7 950	1 250
Total		225 900	13 875

Uganda

1.	Steel foundry	Expansion	7 940	2 500
2.	Cement manufacturing	Modernization/ expansion	9 375	2 500
3.	Plywood plant	"	7 875	3 125
4.	Pineapple processing	New	2 250	1 875
5.	Galvanized water pipes	Expansion/ modernization	8 750	1 875
6.	Galvanized wire	Expansion	940	690
7.	Manufacture of blankets	Expansion/ modernization	3 750	1 250
8.	Food processing (fish)	New	2 500	1 250
9.	Manufacture of alcohol from molasses	"	5 875	1 250
10.	Manufacture of cycle tyres and tubes	Modernization	2 875	1 500
11.	Sugar refining	Rehabilitation	-	2 500
		Total	52 130	20 315

Partner state

	Projects		
Tanzania	10	125 040	14 510
Kenya	13	225 900	13 875
Uganda	11	52 130	20 315
Total	34	403 070	48 700

Table 1

EAST AFRICAN DEVELOPMENT BANK

BALANCE SHEET AS AT 31 MARCH 1981

	(US$000)	
CURRENT ASSETS		
Cash and bank balances	4,588	
Sundry debtors	1,164	
Accrued income (net)	3,778	
Money at all and on deposit	2,446	
	11,976	
LESS : CURRENT LIABILITIES		
Sundry creditors and accrued expenses	3,224	
NET CURRENT ASSETS		8,752
LOANS (NET)		38,924
EQUITY INVESTMENTS		2,154
FIXED ASSETS		2,932
OTHER ASSETS		98
		52,860
Financed by:		
SHARE CAPITAL	16,614	
RESERVES AND RETAINED EARNINGS	5,425	
SHAREHOLDERS FUND		22,039
SPECIAL FUND		2,320
MEDIUM AND LONG-TERM LOANS		28,501
		52,860

NOTES TO THE BALANCE SHEET AS AT 31 MARCH 1981

Principal Accounting Policies

The accounts are prepared on the basis of historical costs. The following summarizes the more important accounting policies used:

(a) The accounts are expressed in Ugandan shillings. For the purpose of the balance sheet, Ugandan shillings are converted into US dollars at the rate of 8 Ug. sh. = 1 US $.

(b) Depreciation is calculated on the basis of the straight line method. The annual rates used for this purpose are:

Leasehold land and buildings	5%
Motor Vehicles	25%
Water reticulation plant	5%
All others	12%

Buildings under construction are not depreciated.

(c) Loan Portfolio

Adequate provision has been made for possible loan losses. The loan portfolio is shown net of provision for possible loan losses. (Provision for possible loan losses as of 31/3/80 is US$ 2.83 million).

(d) Accrued Income

Adequate provision has been made for doubtful interest income. The accrued income shown in the account is net of doubtful interest income of US$ 1.82 million.

(e) Foreign Currencies

Assets and liabilities in foreign currencies are converted at rates approximating those ruling at the end of 31 March 1981. Profit and losses arising from fluctuations in exchange rates during the period are transferred to exchange adjustment reserve account. Currency conversion gains and losses arising from normal business transactions are credited or debited to profit and loss account as they occur.

Table 2

EAST AFRICAN DEVELOPMENT BANK

COMPARATIVE BALANCE SHEET 1976-1981

(US$ 000)

		1981 MAR 31	1980 DEC 31	1979 DEC 31	1978 DEC 31	1977 DEC 31	1976 DEC 31
A.	Current Assets						
	Cash and Bank balances	4,588	2,954	2,141	862	1,276	3,071
	Sundry debtors	1,164	1,056	774	952	743	465
	Accrued income (net)	3,778	2,774	2,729	2,709	1,763	2,160
	Money at call & deposits	2,446	2,455	822	1,156	2,137	2,199
	Sub-total	11,976	9,239	6,466	5,679	5,919	7,895
B.	Current Liabilities						
	Sundry creditors and accrued expenses	3,224	1,093	930	705	937	1,562
	Other short-term liabilities	-	-	-	--	994	250
	Sub-total	3,224	1,093	930	705	1,931	1,812
C.	Net Working Capital	8,752	8,146	5,536	4,974	3,988	6,083
D.	Loans (net)	38,924	38,940	38,744	36,078	31,221	29,681
E.	Investment in other companies (equity)	2,154	2,154	1,915	1,903	1,903	977
F.	Fixed Assets (net)	2,932	2,945	3,040	3,159	3,057	3,042
G.	Other Assets	98	112	98	56	97	31
	Total	52,860	52,297	49,333	46,170	40,266	39,814

Table 2 (cont'd)

EAST AFRICAN DEVELOPMENT BANK
COMPARATIVE BALANCE SHEET 1976-1981
(US$ 000)

		1981 MAR 31	1980 DEC 31	1979 DEC 31	1978 DEC 31	1977 DEC 31	1976 DEC 31
	Financed by :						
H.	Share Capital	16,614	16,614	16,614	16,614	16,614	16,614
I.	Reserves and retained earnings	5,425	5,097	4,977	4,497	3,556	3,470
	Shareholders Fund	22,039	21,711	21,591	21,111	20,170	20,084
J.	Special Fund	2,320	2,209	1,851	1,390	1,008	718
K.	Medium and long-term loans	28,501	28,377	25,891	23,669	19,088	19,012
		52,860	52,297	49,333	46,170	40,266	39,814

Rate of exchange : 1 US$ = 8 Ugandan shillings

Table 3

EAST AFRICAN DEVELOPMENT BANK
COMPARATIVE PROFIT AND LOSS ACCOUNT
(US$ '000)

	1981 MAR 31	1980 DEC 31	1979 DEC 31	1978 DEC 31	1977 DEC 31	1976 DEC 31
Income						
Interest income	1,234	4,603	4,463	3,722	3,217	2,877
Rent	35	171	185	150	126	127
Commission and fees	17	17	97	176	199	67
Profit on sale of fixed assets		1	34	4		14
Director's fees		20	8			
Miscellaneous income	13	5	5	4	5	5
Total income	1,299	4,817	4,792	4,056	3,547	3,090
Interest on borrowings	402	1,483	1,556	1,332	1,200	1,066
Staff benefits	199	793	632	625	648	543
Administrative expenses	151	713	777	638	640	447
Depreciation	45	180	163	115	126	115
Promition for loan losses	63	1,006	785	270	997	492
Exchange loss	-	175	1	36	113	-
Total expenses	860	4,350	3,914	3,016	3,724	2,663
Net profit	439	467	878	1,040	(177)	427

Rate of exchange : 1 US$ = 8 Ugandan shillings.

Table 4

EAST AFRICAN DEVELOPMENT BANK
SUMMARY OF FINANCIAL ACTIVITIES 1972-1981
(US$ '000)

		1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 a/
1.	Loans										
	No. of approvals	13	6	11	7	9	11	10	1	6	4 b/
	Value of approvals	9,883	3,934	7,084	9,062	8,994	10,363	5,338	1,125	1,610	2,726
	No. of commitments	9	6	4	12	6	9	7	4	6	4 b/
	Value of commitments	4,736	5,313	2,509	13,978	5,857	7,625	7,200	1,625	2,553	2,726
	No. of disbursements	11	10	7	11	13	18	13	6	12	8 b/
	Value of disbursements	3,057	5,256	4,893	7,479	9,030	5,378	7,134	1,820	3,903	1,962
2.	Equity Investments										
	No. of approvals	-	1	-	2	2	2	1	-	-	-
	Value of approvals		375	-	150	313	50	250	-	-	-
	No. of commitments	-	1	-	2	-	2	1	-	-	-
	Value of commitments	-	375	-	150	-	50	250	-	-	-
	No. of disbursements	1	1		2	-	3	-	-	-	-
	Value of disbursements	150	375	-	150	-	238	-	-	-	-
3.	Gross income	1,446	1,771	2,020	2,415	3,090	3,547	4,056	4,792	4,817	1,299
4.	Net income	285	495	834	274	427	(177)	1,040	878	467	439
5.	Paid up capital	16,022	16,235	16,572	16,614	16,614	16,614	16,614	16,614	16,614	16,614
6.	Return on paid up capital	1.78%	3.05%	5.03%	1.65%	2.57%	(1.07%)	6.26%	5.28%	2.81%	10.57%
7.	Reserves & retained earnings	2,576	2,572	2,881	3,667	3,470	3,556	4,497	4,977	5,097	5,425
8.	Special Fund	-	-	305	391	718	1,008	1,390	1,851	2,209	2,320
9.	Long-term Loans (borrowings)	2,837	3,627	4,562	9,832	17,790	18,189	23,096	25,891	28,377	28,501
10.	Debt/Equity	0.15	0.19	0.23	0.48	0.89	0.90	1.09	1.20	1.31	1.29

Rate of exchange: 1 US$ = 8 Ugandan shillings. a/ First quarter of 1981. b/ Up to July 31, 1981.