UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

46519

Distr.
RESTRICTED

E/CN.14/ADB/11
11 October 1962

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA
Committee of Nine on the Establishment
of an African Development Bank
Third session

SUMMARY OF CONSULTATIONS WITH AFRICAN GOVERNMENTS ON THE ESTABLISHMENT OF AN AFRICAN DEVELOPMENT BANK

(Note by the Executive Secretary)

62-2546

I. INTRODUCTION

The present note represents a synthesis of the results of the consultations with African Governments as contained in the reports of the three consultative teams (A1, A2, A3)1/ established for this purpose by the Committee of Nine at its first session.2/

While the note seeks to follow faithfully the tenor of these reports, it does not involve the responsibility of the consulting teams, and was prepared by the Executive Secretary for the convenience of the members of the Committee of Nine.

II. SUMMARY OF THE RESULTS OF CONSULTATIONS WITH THE GOVERNMENTS OF MEMBERS AND ASSOCIATE MEMBERS OF THE ECONOMIC COMMISSION FOR AFRICA

(i) Purpose of the Bank

1. The Governments of the countries visited by the three consulting teams expressed their agreement in principle with the proposal to establish an African Development Bank, which they regarded as a realistic step towards the attainment of African unity and solidarity and as a useful means of promoting and accelerating the economic and social development of the Continent. Some of the governments of countries members of the Afro/Malagasy Union added, however, that it would be desirable to prepare the way for the establishment of an African Development Bank by promoting in the first instance the establishment of National and Regional Development Banks. This position was in accordance with the resolution adopted on that subject by the Council of Ministers of the Afro/Malagasy Organization for Economic Co-operation and confirmed by the Heads of State of the Afro/Malagasy Union at their recent meetings in Libreville.3/

2. All governments emphasized that an African Development Bank should mobilize additional financial resources above and beyond that was

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1/ See documents E/CN.14/ADB/6/Add.1,Add.2 and Add.3.

2/ See Document E/CN.14/ADB/4, para. 16-22.

3/ For the text of this resolution, see Annex I document E/CN.14/ADB/6.

currently available to Africa. In seeking additional funds, the Bank should not replace or divert current flows of funds from non-African countries and institutions under existing bilateral arrangements.

3. It was generally agreed that an African Bank would fill an important gap if it could provide finance to African countries for development on better terms and under easier conditions than, or in additional amounts to, those available from existing international lending institutions. It was also felt that the Bank should be free from any political interference, from African or non-African countries in carrying out its activities.

(ii) Financial Structure

4. All governments agreed that the proposed Bank should be an African institution. In keeping with this African character of the proposed Bank it was generally agreed that its share capital should be entirely subscribed by members and associate members of the Economic Commission for Africa. A few of the governments consulted indicated, however, that associate members should not be allowed to subscribe share capital of the Bank before attaining full independence.

5. It was also generally agreed that the contributions from non-African sources should be in the form of loans, grants, etc. Certain governments wondered, however, whether it would not be advisable, even while stressing the African vocation of the Bank, to allow non-African countries to subscribe to a limited extent. Recourse to such a procedure might be necessary where non-African would not otherwise be prepared to support the Bank, and also to attract more funds by inspiring confidence in investors.

6. With respect to the Committee's suggestion that the share capital should amount to US $200 million, practically all the governments consulted thought this was a reasonable figure and within the means of African countries. One government suggested, however, that a share capital of US $100 million would be sufficient. In this

connexion, all the governments consulted agreed that 50 per cent of the proposed share capital should be paid up in convertible currency over a period of five years. They also agreed that the remainder should be callable capital and should be kept as a guarantee fund for loans raised by the Bank. In view of the foreign exchange problems of many governments, the majority view was that the capital if called should be paid in local currency, although many governments recognized that the Bank's borrowing capacity would be strengthened if the callable capital were paid in convertible currency.

7. With respect to the method of determining each country's subscription to the share capital, the great majority of governments agreed that these subscriptions should be based on each country's economic capacity, to be measured e.g. by its gross national product or its national budget, etc. One country suggested that contributions should be calculated on the basis of size of population and of the contributions to international institutions. There was also a suggestion that all subscriptions should be equal.

8. The majority of countries agreed, in principle, with the Committee's proposal relating to minimum and maximum contributions. It was, however, often pointed out that this matter was inevitably linked with the question of voting rights (see (iii) below). This was of particular concern to the smaller countries. A number of countries felt that the differences, even between the small countries, were so large that a flat minimum contribution payable by all might not be justifiable.

9. The consulting teams discussed the contributions, over and above their normal subscriptions, that African countries might make to the Bank. None of the governments consulted committed itself on this question. Some countries suggested that those governments which wishes to buy extra shares could do so provided the extra shares carried additional voting rights. Other, on the contrary, strongly opposed the idea that extra shares should carry additional voting rights. Some governments also stressed the advisability of encouraging

the wealthier countries to make additional resources available for the Bank, e.g. through loans or debenture subscriptions.

(iii) Control and Management

10. All Governments agreed that there should be a Board of Governors on which all subscribers to the share capital of the Bank were represented. It was also generally agreed that the activities of the Bank should be permanently supervised by a Board of Directors composed of up to nine members.

11. The question of representation on the Board of Directors raised a number of delicate issues largely relating to the voting procedure to be adopted. Nevertheless, all agreed that members of the Board of Directors should be directly appointed by their governments. The differences arose over the question of voting rights and the suggestion of the Committee of Nine that permanent seats should be granted to large subscribers. Many countries agreed with the suggestion that the number of votes to be granted to a country should be in proportion to the size of its contributions; they did not all agree, however, that permanent seats should be granted to large subscribers.

12. A number of countries advocated equality of voting rights irrespective of the size of contributions. It was suggested that African solidarity would be strengthened by the adoption of this principle. These countries feared that it would be difficult to avoid struggles for influence and the formation of pressure groups within the Bank if some subscribers enjoyed a privileged position insofar concerned.

13. In this respect it was noted that the views of the large countries did not coincide with those of the small countries on that point. The former generally tended to associate voting rights with the size of subscriptions, i.e. they considered that each Director, or each subscribing country, should be allocated a number of votes equal to the number of their shares, as is the practice in international financial institutions, such as the IBRD, and in fact in commercial banking

companies. Smaller countries as indicated feared that such a system might give excessive influence to the larger countries.

14. The principle of appointing members of the Board of Directors in rotation in order to give all countries the possibility of participating in the Bank's active management was also approved. Those countries which accepted the idea of allocating permanent seats pointed out that the rotation principle would not apply to those with permanent seats.

15. In view of the need to attract additional funds from non-African sources, there was extensive discussion of the conditions under which non-Africans might be allowed to participate in the Bank's activities. The general view that emerged from these discussions was that it would be undesirable to allow non-Africans to sit on the policy-making bodies of the Bank. Some countries were willing that non-Africans should attend the meetings of the Bank's organs as observers and advisers at the Bank's invitation. The two countries that were willing to accept non-African participation in the Bank's share capital, however, were also agreeable to non-Africans serving on the policy-making bodies.

16. Many governments felt that while non-Africans should not have voting rights, a formula had to be devised which would associate non-African contributors and donors with management of the Bank in a way which would not impair the Bank's African character. To this end a number of suggestions were made, including one that a technical committee be appointed to assist the Bank in the technical appraisal of projects to be financed. It was also suggested that there might be a consultative body to advise the Bank on its overall policy. A few governments considered that it would be practical and useful if non-African contributors were admitted to membership in those organs. More than one government suggested that the non-African members of those bodies should not sit as representatives of their governments but as individuals, selected on the basis of their personal expertise. One suggestion was that the non-African members should be selected from the staffs of international organizations such as the United

Nations of which the donor countries were members. Other governments however, opposed membership of non-Africans also on technical advisory bodies, on the ground that through their expertise, they would in fact exercise a strong influence even on the policy decisions of the Bank's management.

17. All governments agreed, in principle, that the Chief Executive Officer of the Bank and his Deputy should be African nationals. Some felt, however, that the Bank's managerial staff should be appointed simply on the basis of their competence and experience rather than on that of their nationality and suggested that if Africans of the required calibre were not available, non-Africans should be eligible also for these two top posts.

18. Insofar as the recruitment of professional staff other than the Chief Executive Officer and his Deputy was concerned, the majority of governments stated that the professionals should, if possible, be recruited from African countries. Many governments, however, drew attention to the prevailing shortage of skills in Africa and to the difficulty that governments experienced in releasing senior staff. In view of these circumstances, the majority of countries hoped that Africans and non-Africans would be eligible for the professional posts.

(iv) <u>Nature of the Bank's operations</u>

19. Those governments which expressed their views on this point unanimously agreed that only development projects located in Africa should be financed by the Bank.

20. It was suggested that both infrastructure and productive projects should be financed. The view of the Committee of Nine that a broad and flexible policy should be adopted in this respect seems to have been accepted. Some governments felt that for financial reasons productive projects should be accorded priority while most governments expressed a preference for infrastructure projects.

21. Many governments agreed that some priority should be given to multi-national projects as, in their opinion, national projects would be financed through national development banks. They added that in cases where national development banks were unable to finance domestic projects the Bank could come to their assistance. It was agreed that, although some of the multi-national projects envisaged could be regarded as productive, the greater part of them would not be immediately profitable. It was recognized, however, that multi-national projects were important for the integrated development of the Continent, e.g. in view of the inadequacy of intra-African transport, and the consequent low level of intra-African trade, the need for river development projects, hydroelectric projects, petroleum refineries serving several countries, etc.

22. Some governments, on the other hand, said that undue emphasis should not be given to multi-national projects since they were by their very nature difficult and complex to prepare, were time-consuming and required prior inter-governmental negotiations and agreement. It was suggested that the Bank might be involved in disputes over the apportionment of loans. For a number of reasons, multi-national projects might not be ready for financing in the first phase of the Bank's operations. One fear expressed was that emphasis on multi-national projects might favour the formation of undesirable, pressure groups within the Bank.

23. Many countries said that projects contained in development plans should naturally be accorded priority. Some, however, argued that the mere inclusion of a project in a development plan should not entitle it to priority. All countries consulted seemed to agree, however, that while loan requests should be appraised not merely by reference to their inclusion in a development plan but rather on their own merits, considerable weight should be attached to their potential contribution to economic and social development as set out in national development programmes. It was noted in this connexion that some

countries had large planned sectors while others had small planned sectors. There was no agreement as to whether projects in the private sector should also be financed by the Bank, some governments taking the position that the Bank's resources should be reserved to public sector projects, while others felt that the Bank could play an important role in the effective promotion of needed private foreign and domestic investments.

24. It was suggested that some relationships between the type of loans (soft loans versus hard loans) and the type of projects (infra-structure versus productive projects) should be maintained. Soft loans should be granted to finance the infra-structure, multi-national variety while loans on normal commercial terms should finance productive projects. It was noted that in the negotiations with non-African governments these considerations should be kept in mind.

25. Many governments stressed the need for the African Bank to co-operate closely with national development banks. This would facilitate the exchange of information and the avoidance of over-lapping and publication indispensable for the efficient use of the resources of all the institutions involved.

26. A number of governments felt that the African Bank should provide development finance for small projects in view of the fact that such projects, normally included in national development programmes, did not normally interest non-African lenders and donors. Such projects were nonetheless important for their countries' development. They thought that the Bank should open lines of credit to finance such projects which could be administered through the national development banks or other appropriate institution to be agreed upon between the Bank and the government concerned.

27. Throughout the talks emphasis was laid on the need to finance sound development projects. In this connexion it was stressed that the Bank should have a technical staff to assist governments or private organizations in project formulation and appraisal.

28. It was suggested that the Bank should co-ordinate its activities with the United Nations Special Fund in order to assist governments in identifying projects for pre-investment survey and for subsequent financing of resulting development projects.

(v) Forms of the Bank's Operations

29. Generally, governments agreed with the recommendations of the Committee of Nine that the Bank's approach should be broad and permissive, and that it should have a high degree of flexibility in the forms of investment it might make. It could make loans, on commercial terms and soft loans of various kinds, administer grants and special (trust) funds and give technical assistance in its field. Some governments felt that the Bank should also have power to make short and medium-term commercial loans. For all its activities, however, it would be essential for the Bank to operate on sound banking principles using strict management techniques.

30. It was stressed that the Bank's freedom of choice as to the kind of financial assistance it could provide would be largely governed by the terms on which it in turn could secure its own financial resources; i.e. the Bank could grant soft loans only to the extent to which funds had been made available to it on a soft loan or grant basis. In this connexion the position was taken by a number of governments that even funds donated to the Bank should be disbursed only on a loan basis.

31. It was suggested that it would be advisable for the Bank to separate in their accounts the different types of loans (i.e. commercial loans, hard loans, soft loans).

32. One general observation made was that member countries should not always go to the Bank in the first instance for loan assistance. This would burden the Bank unduly. The Bank should, however, be ready to assist countries in obtaining additional finance from sources other than its own.

33. The Bank could also participate in consortia with international financing agencies and non-African governments that might wish to assist the development of particular African countries. The financing of certain types of national and multi-national projects could be facilitated in this way.

34. Some governments felt, that the Bank would run a great risk if it invested in equity capital. Direct investment in projects would also mean direct participation in the management of projects themselves which would not be advisable in itself and would be difficult to carry out in view of the shortage of skills and funds that would be at the disposal of the Bank. Other governments, however, were of the opinion that the Bank's experience and knowledge of conditions in African countries should enable it to participate effectively in the stimulation of useful private enterprise.

35. The Bank could undertake the administration of trust funds and technical assistance funds provided, again, that those activities were kept administratively separate. One view was that the Bank could in respect of these funds act as an intermediary between donor and recipient countries if that was the wish of both parties concerned.

36. In the field of technical assistance activities, practically all governments agreed that the Bank should not duplicate the services of existing technical assistance organizations. It should only provide technical assistance in the fields strictly connected with its own activity, for example, it should assist in the provision of expert staff for the formulation of programmes, appraisal and preparation of projects, guidance in their execution, training of technicians in these fields, etc.

(vi) Location of the Bank's Headquarters

37. Governments listed a number of criteria which should govern the choice of a site for the Bank. The consulting teams reported that the views and criteria put forward by governments in this respect were

somewhat coloured by their desire to have the Bank seated in the capitals of their respective countries. In this regard no consensus of opinion could be achieved, at any rate at this stage.

38. Those governments - the majority - which offered to accommodate the Bank in their territory said they would be willing to provide a site for the Bank and to offer to the staff of the Bank the privileges normally accorded to UN personnel. A few went so far as to offer to put up the required building and other physical facilities for the Headquarters of the Bank at their own cost.

39. The following were among the criteria which governments felt should govern the choice of the Bank's headquarters:

(a) a geographical central position;
(b) availability of a well developed communications network;
(c) existence of a large urban centre capable of providing amenities and services at a reasonable cost;
(d) existence of financial institutions and, if possible, of a money market;
(e) availability of adequate staff and training facilities.

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