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Agenda item 2

GENERAL LINES OF POLICY FOR CONSULTATIONS IN
NON-AFRICAN COUNTRIES

(Note by the Executive Secretary)

GENERAL LINES OF POLICY FOR CONSULTATIONS
IN NON-AFRICAN COUNTRIES

In the discussions that took place during the Committee's first meeting in Monrovia it was made clear that the Committee of Nine were in favour of restricting the participation in the share capital of the African Development Bank to the African States only; the contributions by non-African countries would, it was considered, take the form of loans and grants. The reports of the three teams that visited the African States will show whether these States have endorsed the opinion of the Committee or have suggested certain modifications. These modifications, if any, will be the subject of discussion by the Committee of Nine in its second meeting. Teams visiting the non-African countries would know the trend of thinking in the Committee in so far as the share capital problem is concerned.

In addition to this major question of the provision of share capital there are other problems that need to be discussed in the Committee of Nine so that the teams going to non-African countries would be guided by the opinion of the Committee on these matters. In the following paragraph these matters are briefly dealt with to assist the Committee's discussions.

The first problem that suggests itself is the currency in which loans can be accepted by the African Development Bank. Must the loans be made in convertible currency only or can they be made in non-convertible currency partially, or in whole? In the case of acceptance of non-convertible currency loans, will this be an obstacle to seeking international tenders for works to be undertaken and for making adjudications according to technical criteria which is an essential condition to the good working of the Bank? Or is it considered to be possible to make international adjudications and if the lowest bid comes from the country where the non-convertible currency can be used the order can be given to that country and the payment made in the non-convertible currency. Such a loan can only be in the form of a line of credit and any interest

to be paid on such loans will have to be calculated as from the date the line of credit or part of it is utilized. It is likely that such lines of credit will not be utilized as quickly as the convertible loans. Such lines of credit will necessitate a provision fixing the rate of exchange as otherwise the country borrowing in that currency may run the risk of paying heavily because the country whose currency is used has decided to over-value its currency.

Such problems do not present themselves in the case of grants. There is no rate of interest to be charged nor is the repayment of principal required.

The rate of interest is also one of the questions that deserve discussion by the Committee. There are projects in Africa that can pay the market rate of interest but there are others, also very essential, where at the market rate of interest, the total amount to be paid in interest would constitute a heavy burden on the borrowing country. Most of the infrastructure projects and the larger power projects fall into this last category. The Committee of Nine may find it advisable to emphasize that a good part of the loans borrowed by the African Development Bank from the non-African Governments will require a low rate of interest or no interest at all and that the period of the loans should be as long as forty or fifty years so that the burden on the borrowing country when repayment takes place will be more nearly proportionate to the possibilities of that country.

As for membership of the organs of management, the Committee of Nine have expressed their view that the members of the Board of Governors and of the Board of Directors must all be Africans but the Committee did not rule out the possibility of having a Consultative Committee of technicians and experts that could be chosen from non-African countries as well as from African countries. A discussion by the Committee on this point would guide the teams visiting non-African countries in their consultations.

Finally, some guidance is also required as to the future lending policy of the Bank. The Inter-American Bank has what they call the three window device - hard loans, soft loans and grants, while the International Bank for Reconstruction and Development has one window for hard loans, but has lately established a window for soft loans by creating the International Development Association (IDA). A discussion as to which of the two devices is best suited for the African Development Bank will be most helpful. It is worth noting here that in the case of the Inter-American Development Bank the USA is the only partner and the only one so far that is giving grants to the Bank to administer. The USA is represented on the Boards of Governors and Directors.

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