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REPORT ON THE POSSIBILITIES OF ESTABLISHING AN AFRICAN DEVELOPMENT BANK

61-1658

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REPORT OF A PANEL OF EXPERTS ON THE POSSIBILITIES OF ESTABLISHING AN AFRICAN DEVELOPMENT BANK

A. ATTENDANCE ARRANGEMENTS AND TERMS OF REFERENCE OF THE PANEL

1. The Panel met from 4 to 7 October and from 13 to 16 December 1961 in Africa Hall, Addis Ababa.

Present were:

M. Andre Beronie 3/	Director adjoint - Banque Nationale pour le Commerce et l'Industrie France
Ato Bulcha Demeksa 1/	Acting Director of Credit and Finance Ministry of Finance, Addis Ababa, Ethiopia
Dr. Abdel Galeel El Emary 3/	Ex-Governor of the Central Bank of the UAR
Dr. C.N. Isong 1/	Director of Research, Central Bank of Nigeria
Ato Menasse Lemma 1/	Acting Governor, State Bank of Ethiopia
M. I. Mahroug 3/	Conseiller Technique Caisse de Depot et Gestion, Rabat, Morocco
M. F.A. N'Liba - Nguimbous 3/	General Director, Development Bank of the Cameroon Republic
Dr. Pius Okigbo (Chairman) 1/	Economic Adviser to the Government of Eastern Nigeria
M. J. Oudiette 2/	Banque Nationale pour le Commerce et l'Industrie France
Mr. P. Clarence Parker 3/	General Manager, The Agricultural and Industrial Credit Corporation, Monrovia, Liberia
M. Pierre Sanner 3/	Director, Service des Etudes, Banque Centrale des Etats de L'Afrique de L'Ouest
Ato Taffara Deguefe 1/	General Manager State Bank of Ethiopia, Addis Ababa

These experts were attending in their personal capacity and not as representatives of their governments.

The first meeting of the Panel was opened by Mr. Mekki Abbas, Executive Secretary of the Economic Commission for Africa and the second meeting by Mr. Stein Rossen, Director of the Research Division of ECA, in the absence of the Executive Secretary.

The following served as officers for the Panel:

H.W. Singer 1/	Secretary
A.M. Acock 1/	Rapporteur

2. While opening the first meeting the Executive Secretary pointed out that this Panel of Experts on an African Development Bank had been convened in accordance with ECA Resolution 27 (III) adopted at the third session, which "requests the Executive Secretary to undertake a thorough study of the possibilities of establishing an African development bank and to report to the Commission at its next session" i.e early in 1962. On the basis of the discussions of these two meetings and material assembled by the Secretariat this report has been prepared for the fourth session of ECA. This report was approved by the Panel of experts.

3. The full text of Resolution 27 (III) is as follows:

27 (III) Establishment of an African Development Bank

The Economic Commission for Africa,

Considering the capital needs of the African States for the execution of their economic development programmes by concerted action in the public and private sectors,

Believing that such action requires, in addition to bilateral or multilateral aid, the availability of long-term credits at low rates of interest,

Believing that an international bank with regional competence limited to Africa would meet these requirements,

Requests the Executive Secretary to undertake a thorough study of the possibilities of establishing an African development bank and to report to the Commission at its next session.

50th meeting
16 February 1961.

1/ Attended first and second meetings of panel.
2/ Attended first meeting only.
3/ Attended the second meeting only.

4. Working and background papers before the panel were as follows:

1. Working Paper on the possibilities of Establishing an African Development Bank Document E/CN.14/ESD/9.
2. E/CN.14/88, International Economic assistance to Africa.
3. Possible Approaches to Country-Level Coordination of Lending, Raymond F. Mikesell.
4. Capital and Capital Supply in Relation to the Development of Africa South of the Sahara, Leonard Rist.

5. It was not the intention of the panel to reach firm decisions on the ways in which the proposed African Development Bank should be organized. There was a general recognition of the fact that details of the organization and structure of the proposed Bank should be kept as flexible as possible, at this early stage, and will have to be reconsidered in the light of subsequent negotiations. Attention was, however, drawn to certain main topics, which were discussed with a view to revealing various alternatives, and to drawing up guide lines for further discussion at the fourth session of ECA.

B. FUNCTIONS AND JUSTIFICATION FOR A NEW FINANCIAL INSTITUTION IN AFRICA

6. Before proceeding to discuss the type of organization that might be established, it was agreed that a prior major question to be considered is whether a new institution is needed at all, for financing the development needs of African countries. Attention was drawn by the Executive Secretary and others to a wide variety of existing and projected multilateral and bilateral agencies as described in the Secretariat working paper (E/CN.14/ESD/9). These bodies are already making to African countries, quite substantial loans and other payments of two main kinds i.e. "hard" from the capital market and "soft" from public sources. While it was agreed that there are no objective criteria for assessing the appropriate shares of foreign aid for the various regions of the world, it was considered evident that African countries require considerably more investment than they have received hitherto if their economic growth is to be assured.

7. An essential feature, therefore, of a new financing organization, as pointed out in the working paper, would be that of "additionality" i.e. it must be effective in securing a higher net availability of funds for Africa, not merely the substitution of one source of funds for another. In the Working Paper it was made clear that additionality might be secured both through lower servicing charges for loans as well as through increased lending. It was agreed that a suitable financing institution for Africa could be instrumental in attracting additional outside investment if efficiently organized and managed. Its effectiveness in this respect would probably depend in large measure on its success in marshalling directly or indirectly capital from within Africa itself as evidence of self-help. The success of the Inter American Development Bank was quoted in support of creating a new regional body despite the prior existence of international and national financing agencies.

8. It was recognized that another contribution to be expected from a new African financing organization is that it should perform specific functions not already performed by existing international or national financial agencies. The Working Paper listed seven such gaps several of which are of a supra-national character, either sub-regional[1/] or regional.[1/] In view of the importance of close cooperation between African countries e.g. in river basin development, education and training schemes, markets for industries, and transport projects to promote intra-regional trade.

9. Considerable stress was laid during the debates on the need for this type of coordination not only of supra-national projects but also of national development programmes. It was pointed out that ECA Resolution 27 (III) in its first paragraph refers to capital needs for the execution of "economic development programmes by concerted action." The emphasis of most existing financing agencies is on well-formulated projects which meet certain standards of credit worthiness.

1/ In ECA usage regional refers to the whole of Africa, sub-regional to a group of neighbouring countries e.g. West Africa, Central Africa, East Africa and Mahreb.

This concentration on projects in individual countries may lead to lack of regional coordination and duplication e.g. cement factories may be sponsored simultaneously in two or more neighbouring countries, although the market may justify only one for the sub-region. There is need, therefore, for a coordinating body which can compare national programmes, not only at the stage when projects are actually formulated, but at a prior stage when they are still under consideration. An African body, it was considered, would inspire more confidence as a clearing house for this confidential confrontation of preliminary programmes than would an outside body. Collaboration might be arranged with ECA perhaps through its proposed Development Institute.[1] It was further suggested that, in the case of projects affecting several countries, a regional financing institution could also arrange for joint financing from the countries concerned.

10. By virtue of its intimate knowledge of current and prospective development programmes a regional body could also be instrumental in revealing to outside financing agencies new opportunities for investment. It might, in addition, assist in formulating such opportunities into sound projects. The Panel considered this to be an important matter of this stage. In these two ways it would perform a constructive role in attracting additional capital a role which would be sounder and more effective than pressure or political "lobbying". Another related contribution would be that of simplifying relationships with sources of capital, both the capital market and public sources, and of providing liaison with both external and national agencies. A regional institution associated with African problems would also be able to present the problems of the region in the most acceptable way to existing financial institutions for loans and grants.

1/ See Document E/CN.14/128. This was not available to the Panel.

11. Another important function, not at present performed by existing financial agencies, which was discussed by the panel, was that of guaranteeing government loans for development purposes. This problem has become of increasing importance recently as a result of the independence of many countries, whose loans were formerly guaranteed by the metropolitan governments. This was considered by the panel to be a proper function for a regional financing body, which might, for example support loans from other agencies by itself providing supplementary loans. Attention was also devoted by the panel to the related function of guaranteeing private capital. It was not considered realistic, however, at least in the initial stages of a new financing body, for it to provide guarantees against nationalization and other political risks. But by strategic timing of its own investment such a body might be able to help in restoring confidence and forestalling a flight of capital, though the latter appeared to be more the function of national central banks and exchange controls.

12. Consideration was also given to the fact that capital investment for new development sometimes creates problems of current expenditure e.g. for maintenance of roads, for teachers in new schools, etc.. If certain long term social expenditure, e.g. on education, could be classified where appropriate as development expenditure and financed from special project contributions or grants it would greatly improve the present situation. A regional financing institution could assist in this kind of financing, either through its own operations, or by channelling grants from other aid-giving bodies.

13. In conclusion therefore the panel considered that a new African financing institution could be justified to perform a variety of activities not all of which are at present performed by any existing agency.

C. THE TYPE OF NEW FINANCING INSTITUTION

14. The second main question considered by the panel was that of the type of new financing institution necessary to attract a sufficient volume of additional funds, to use the finance effectively for economic development, for long term social programmes and for supra-national projects, to provide liaison with existing lending agencies and to perform the various other tasks outlined in section B above.

15. The Executive Secretary pointed out that ECA Resolution 27 (III) specifically mentions an "African development bank" to provide "capital needs of the African States for the execution of their economic development programmes by concerted action in the public and private sectors by long-term credits at low rates of interest in addition to bilateral and multi-lateral aid." He asked the Panel to examine this definition first and only after careful examination to propose alternatives, with indications of why modifications are proposed.

16. The Panel agreed that the kind of institution and the functions described in the resolution would be valuable. Such a body, if set up, would resemble a regional version of the International Development Association (IDA) and would make "soft" loans i.e. with easy conditions of repayment and low or negligible rates of interest, which must be financed from public non-commercial sources. However, practical difficulties were foreseen in attempting to create such a body as an initial step. In the first place it would not be possible to raise the necessary funds through normal banking procedures; in other words it would be difficult to establish a 'bank' as called for by the Resolution to carry out the soft loan operations described in the Resolution. Recourse to the IDA donors for an IDA-type body limited to one region might not be favourably regarded and the proposal would become more a politial matter than a banking one.

17. It was generally agreed that it would be preferable in practice to advocate the creation of one or more institutions to handle commercial as well as non-commercial activities. In support of this it was pointed out that although the conditions of repayment of the "soft" IDA loans are different from those of the "hard" IBRD loans, the IDA itself had only been possible because it employs the experienced IBRD staff and the accepted standards of selection and scrutiny of projects of the IBRD. Secondly the Inter American Development Bank resembles in structure a combination of the IBRD and IDA with commercial and non-commercial operations, with the further addition of grants for social projects. In the absence of a sound banking framework backed by commercial experience and accepted banking standards it would be very difficult to secure the necessary capital and to inspire adequate confidence, particularly as it is apparent that a substantial part of the money would have to be contributed from outside Africa if the proposed institution is to operate on a satisfactory scale.

18. Various types of organization were considered, including a commercial bank, a board or agency for approaching existing financing institutions, a board to coordinate national institutions and a fund for distributing grants. In order to carry out the tasks outlined in section B above it would be necessary to have a combination of these, supported by technical staff able to analyse and formulate projects and advise on the coordination of national development plans. Rather than proposing a number of institutions, it was considered by the Panel preferable to combine these various functions in a single body to be called a "bank" with a flexible constitution.

Such an institution would therefore combine :

(a) "Hard", commercial operations

(b) "Soft", non-commercial loans

(c) The distribution of grants

(d) Support for pre-investment expenditures

(e) A guarantor function for loans from other sources.

Such a structure would have many similarities with that of the Inter American Development Bank.

D. THE SCALE OF CONTRIBUTIONS

19 Various factors were considered by the Panel as an indication of the scale of operations necessary to make a worth-while contribution to development of the region and the likely level of available resources. It was noted that the Inter American Development Bank has an effective capital of about $ 800 million over 5 years (excluding Alliance for Progress grants) for a region with a similar total population to that of Africa. Of this, about $ 500 million is derived from Latin American sources. As the national income of Africa is much lower than that of Latin America, the contribution of a similar percentage of national income would supply $ 150 to $ 200 million over 5 years.

20. $ 40 million a year or $ 200 million in 5 years might therefore represent the level of contribution that African countries might be able to subscribe to the capital of the Bank. It was noted that this would be considerably less than the annual capital of IADB, IDA and FEDOM (EEC development Fund) all of which have between $ 150 and $ 200 million annually. It was also estimated very roughly, that a modest development programme for Africa, including e.g. 10 river basin projects, might require an investment by the Bank of roughly $ 1 billion in 5 years i.e. about $ 200 million a year or 5 fold the level of the African contribution. Outside contributions might therefore have to be about four times the African contribution to the share capital in order to permit a modest scale of operations. The Panel considered these overall figures reasonable and acceptable as a first step.

21. More detailed consideration was then given to the African subscription of share capital. $ 40 million a year would represent about ½ per cent of the national income of Africa including the non-monetized sector and should impose no undue burden on the continent as a whole. If spread over the 40 countries and territories of Africa, it would represent $ 1 million per country. If all members of the Bank are to have an equal voice, without discrimination and weighted voting, it might be necessary for all members to contribute the same amount irrespective of size and wealth. In this case $ 1 million a year might be a considerable burden initially, for certain very small countries, particularly if required in convertible form (see paragraph 30).

When the ADB was fully operating, however, with a large outside contribution, most individual African countries would be receiving more than they were contributing.

E. SOURCES AND NATURE OF FUNDS

22. As has been mentioned in section C above, ECA Resolution 27 (III) refers to an international bank with regional competence limited to Africa and also to an "African" development bank. It is not clear from the Resolution how these two definitions are to be related to each other, but the Panel has stressed that as large an African contribution as possible would be necessary to give the Bank an African character and to give evidence of self-help. Nevertheless it is expected that, for the Bank to be effective, it would have to attract considerable outside finance largely from public sources. At present the main external financial support for a number of African states is derived from France, and the UK under bilateral arrangements. Reference was also made to the possibility of further bilateral aid and investment from additional countries in America, Europe and Asia. Multilateral agencies may in addition be expected, with the growth of IDA activities, to offer a greater variety of contributions, with an increased proportion of "soft" loans. Further expansion is also possible in future e.g. through the much-discussed United Nations Capital Development Fund.

23. In order to discharge the five main functions outlined in paragraph 18 above, the Panel considered that the African Development Bank might seek funds of the following general types :

(i) Subscriptions largely from African states to the share capital.

(ii) Contributions from African and non-African sources for the general purpose loans of the Bank.

(iii) Contributions from African and non-African sources for special purposes to be settled between the Bank and the contributors.

(iv) Funds for <u>ad hoc</u> projects from miscellaneous sources under conditions to be settled between the Bank and the contributors.

In practice it was thought that money of types (ii), (iii), and (iv) would be derived mainly from external sources, but that special efforts should be made to attract African contributions. It will be clear from what follows that the four categories of funds listed above should be interrelated from the beginning and should as far as possible be secured simultaneously. This might take the form of negotiated pre-commitments of funds from the various potential subscribers and contributors.

24. To be consistent with Resolution 27 (III) and the spirit that had inspired it, and to perform some of the confidential tasks defined under section B above, this institution should have an essentially African character. To ensure this African ownership and control the Panel considered restricting the share capital to African states. It was found, however, that this would lead to extremely complicated arrangements if non-African contributors were to be given the degree of participation in management and handling of the funds that they would probably require, if they are to contribute on an adequate scale to make the Bank effective (see paragraph 38). The Panel agreed, therefore, that consideration should be given to including non-African governments as share-holders with limited voting rights. Their actual level of participation might be ascertained in subsequent negotiations. If it proved feasible to issue shares to non-African governments in order to attract a greater volume of share capital, the Panel suggested the creation of separate categories of capital, e.g. Category A for African members and Category B shares with more limited voting rights for non-African members. The Panel suggested that at least half the total share capital might be in A Category shares and the rest in B Category.

25. Separate attention was given to the possibility that international Organizations such as the United Nations, the International Bank and the International Finance Corporation might also contribute to the share capital of the Bank. It was considered that such subscriptions would not detract from the essentially African character of the proposed Bank in the same degree as national non-African contributions, since African countries are members of these bodies. The Panel realized

that the existing statutes and structure of international financial organizations prevent them from taking up shares of the proposed Bank. Apart from subscribing to the share capital, the contribution of international organizations to the capital resources from the beginning would be essential to the successful establishment of the proposed Bank. In the case of the IBRD a willingness to cooperate in the same way as in the case of several national financial institutions of development banking nature would be appropriate. The Panel considered also that support might take the form of a call by the United Nations to member countries to cooperate with and support the proposed Bank.

26. Subscription of share capital by private individuals or bodies, both African and other, was considered, but it was pointed out that such subscriptions could not be anticipated in view of the non-profit making nature of the equity investments in the capital of the Bank, that private investment would be more advantageous in national projects and that private participation would complicate voting procedures. Private individuals and bodies might rather wish to buy bonds of the African Development Bank; take part in projects of the Bank, or buy securities from its portfolio.

27. The Panel discussed various bases upon which the share capital subscriptions of African governments might be assessed. These included an equal subscription from each member irrespective of size and wealth, a population basis, and a basis in accordance with the United Nations, IBRD or IMF scale of contributions i.e. related to national income, but no general conclusion was reached.

28. In addition to share capital subscribed by governments, other African funds might be mobilized e.g. through the sale of bonds of the Bank or of securities of the enterprises supported by the Bank. This might also help to foster capital markets in countries of the region. Joint arrangements might be made with national banks. It was pointed out that if the countries of the region are not prepared to make the necessary sacrifices to provide a minimum of financing to start the Bank there is little hope of success.

29. Turning to external sources of financing, the third session of ECA had expressed a strong preference for multilateral assistance and at the UN it has often been agreed that a higher proportion of additional contributions should be made through multilateral institutions. It was noted by the Panel that there may be a tendency for a shift in this direction. For example the U.S. is using the Inter American Development Bank to distribute previous bilateral aid to Latin American countries. On the part of some multilateral agencies there is also a growing tendency to channel aid through local development banks. The IBRD, for example, does this and the African Development Bank might be such a channel, alternatively the IBRD, the IFC, the IDA and the African Development Bank (ADB) might link their operations to finance related projects. The Development Fund of the EEC could similarly be encouraged to use a new single point of contact. Bonds of the ADB might also be sold outside Africa as well as internally. Another potential source would be from large foreign companies operating in Africa which could have an interest in promoting development and might be prepared to invest in an African Development Bank.

30. The question of the convertibility of subscriptions was also discussed by the Panel. It was agreed that 50% of the subscriptions should be made in gold and convertible currency; this percentage would apply to each of the annual instalments by which it is pictured the subscriptions would be paid over the five years. The other half of each annual instalment would be made in local currency. The suggestion was made that the Bank should have the right, at the end of the five-year period, to request the conversion of up to one half of the local currency subscriptions into the currencies needed by the Bank. Since the Bank probably would have most of its total resources in the form of supplementary loans or grants from outside Africa (which would normally be convertible or at least in the currencies needed by the Bank), the non-convertible share subscriptions would be only a small proportion of the total resources of the Bank. Thus the necessary flexibility of the Bank would be safeguarded. The Panel noted that in the case of

the IADB also 50% of the basic capital subscribed by Latin American countries is in gold and convertible currency. The local currency contributions would be available to the Bank for its local expenses and also for covering local cost of assisted projects in those exceptional cases where the Bank does not limit its support to the foreign exchange cost of projects.

F. ORGANIZATION AND MANAGEMENT

31. When discussing the type of new financial institution in section C above the Panel had agreed that the best way to reconcile the aspiration for an "African" development bank, with the practical need to secure sufficient external funds from international sources was to arrange the share capital of the Bank in such a way that at least 50% of the share capital is to be subscribed by African states the rest is to be left open for subscriptions from outside Africa. The non-African subscriptions would be in B Category shares and would give less voting power so as to leave a substantial African majority in ownership and control. An alternative was to confine full membership and ownership of the Bank to the governments of African states, who would subscribe the share capital. Under either arrangement steps should be taken to attract additional contributions for hard and soft loans and grants from as wide a range as possible of public and private donors, external to Africa as well as internal. It was agreed that the success or failure in attracting outside contributions would depend in large measure on the organization and management adopted and the type and degree of control exercised over the use of the funds. The importance of commercial banking experience and high technical standards of management was stressed.

32. A main preoccupation of the third session of ECA was that foreign aid should be free from "strings". The Panel interpreted "strings" to mean conditions such as military bases and political alignment and not as including the arrangements and conditions needed to ensure good management and proper handling of the money.

33. Recognizing that external contributions might be linked with management rights or conditions, the Panel considered the possibility of defining maximum and minimum conditions acceptable to both donors and recipients, but concluded that these would have to be negotiated directly with the parties concerned

34. The Panel was reminded that in normal banking operations the major contributors have a controlling voice. The principle of proportionate voting is also adopted in the IBRD and the IDA. The IADB has two forms of control, proportionate voting for its hard and soft loan operations and a system of direct agreements for grants and social projects. If the principle of proportionate voting were to be applied to the African Development Bank, it would probably result in a measure external control, which might be considered as inconsistent with the African character expressed in ECA Resolution 27 (III). If given adequate safeguards, however, donors would not necessarily demand a voice commensurate with their contribution, but might be satisfied with a less than proportionate voice on the controlling bodies.

35. As for the organizational structure of the Bank, a number of suggestions were considered. There should be a Board of Governors which would be predominantly African but would also include the non-African subscribers to the share capital (category B shares). There might be approximately 40 African and 10 non-African subscribing countries. Next, there would be a smaller Board of Directors (perhaps 14 - 18) which would be similar in composition. Specific types of funds and operations might be administered by special committees the composition of which could be adjusted to the requirements of each case.

36. It was suggested that in the interests of coordinating financial planning and development banking in the region, the competent Ministers should meet once every two or three years.

37. A proposal regarding the voting power on the Board of Governors to be accorded to the African and non-African subscribers was that the latter should be limited to 20 - 25 per cent. The 75 to 80 per cent of votes represented by African members might be distributed according to several alternative systems:

1. Each African member should have equal voting power and subscribe an equal amount.
2. Each African member should have equal voting power, but contributions might be determined by such criteria as size and wealth.
3. If parity voting is not considered necessary, voting might be related to contribution in a manner which combines elements of equal voting and voting proportionate contribution. Thus each country might have a basic number of votes equivalent to a minimum subscription. For each 20 per cent over the minimum subscription it would receive an additional 10 per cent of votes.

38. In case the share capital should be confined to African subscribers, an arrangement that was suggested to the Panel was that there might be different tiers or levels of management for the different categories of funds. Referring to the four types of funds listed in paragraph 23 above, the share capital (i) and the contributions for general purpose loans (ii) on the one hand might be managed separately from the special purpose contributions and grants, (iii) and <u>ad hoc</u> funds (iv) on the other hand. The latter group might be subject to special agreements between the donors and the Bank. In the management of the general purpose resources there might for example be two or more boards. According to one view the outside donors might be represented in policy decisions made by a Board of Governors, leaving management in the hands of a purely African Board of Directors. An alternative view was that non-African contributors would be represented on the Board of Directors. Still another view was that all non-African contributors might form an advisory body, which would indirectly participate in the management of the Bank. The arrangements described in this paragraph are, however, complicated and the Panel expressed its preference for the previously described system resulting from non-African participation in the share capital of the Bank.

39. It has previously been proposed that in addition to the subscription of around $ 200 million by African members there should be a further subscription by non-African members of category B shares with less voting power. It was suggested that these non-African subscriptions might amount to a maximum of another $ 200 million. This should not allow for a larger number of non-African members of the Board of Governors than one quarter or one fifth of the total membership.

40. The question was raised of the policy to be adopted towards outside contributors who might wish to earmark their individual contributions as to their end use. It was agreed that general purpose capital would have to be untied but special purpose funds might be subject to bilateral agreements with the Bank. As a general principle of management the Bank itself should conduct the necessary determination of credit worthiness and the examination of the use of loans and grants.

41. Reference was made to the probable difficulty of securing suitably trained and experienced staff of the proper calibre, particularly in the initial phases of an African Development Bank. Training of carefully selected personnel would be an important feature of its activities. It was noted that in the case of the IADB about 2/3 of the staff are Latin American, the rest being of US and non-American nationality.

G. NATURE OF INVESTMENTS

42. The proposed Bank should not be limited in the distribution of its investments as between loans, equity participation in risk capital, and possibly such intermediary forms of investment as may be appropriate to specific requirements. The Panel considered, however, that the

equity investments of the Bank should not exceed a limited proportion, perhaps 20 to 25%, of its total outstanding investments. A higher proportion, it was felt, might involve excessive risks for the Bank, and might also make it difficult to sell the bonds of the Bank to African and non-African institutions and other investors. The Panel further considered that the equity holdings of the Bank in any individual project or enterprise should not exceed a minority limit, say 20 to 25% of the total equity capital of the enterprise. The equity holdings would be open for sale by the Bank to governments, public or private institutions and investors. In this way, the equity investments would constitute a revolving fund, and the Bank would be able to replenish its resources. The loan portfolio of the Bank would equally be open to sale to interested investors.

43. The Bank could invest or make loans to any kind of project or enterprise, whether governmental, other public, mixed or private. The Panel did not consider that any limitation should be placed on the proportion of the Bank's funds to be committed to the public, private or mixed categories of projects. Where the Bank lends to, or invests in private entities, the approval of the government concerned should be required. In the case of regional or sub-regional projects, affecting several countries, the approval of all governments concerned should be required. The most desirable arrangement would be for the projects assisted by the Bank to be approved by governments not only on an ad hoc basis, but for them to be part of the development plans or programmes of the country. In additions to the necessary government approval, the Bank may also require the guarantee of the government of governments concerned where the circumstances of the case make this desirable in the Bank's judgement. The approval by governments would also be taken to imply the allocation of the necessary foreign exchange

required to pay interest and dividends on the Bank's loans and investments in the currency specified in the agreement.

44. In the normal case, the Bank would limit its assistance to the foreign exchange cost of projects, but in special cases the Bank would also be authorized to cover part of the local costs. In no case would the Bank cover more than part of the cost of an assisted project. The loans and investments of the Bank would normally be given in respect of specific projects, but this limitation would not apply to special purpose contributions or funds administered in trust by the Bank by special agreement with the contributors.

H. RELATIONS WITH NATIONAL DEVELOPMENT BANKS AND AGENCIES

45. The Bank would have it as one of its purposes to assist and strengthen national development banks and similar institutions, and to complement their activities. In giving effect to this, the Bank should help to establish national development banks, offer its assistance to them and in appropriate cases act as channel, for instance in relation to external sources of finance. Reciprocally, the national banks would also act as local agents of the African Development Bank, and serve in appropriate cases as the channel of distribution for its loans and investments.

46. The African Development Bank would normally limit itself to large-scale loans and investments, and the Panel considers that a floor level should be determined in this connection. This floor level would, however, be different for different countries, different types of projects and different types of funds and would be fixed by agreement with each government concerned. Investments and loans below this level would normally be left to national development banks. Where it seems desirable that the African Development Bank should assist with such smaller loans or investments, it should normally use the national development banks as a channel of distribution wherever such a national bank exists. The African Development Bank could also, in appropriate cases, join the national development banks or similar institutions in assisting the same project. The loans and investments of the African Development

Bank should be open to national development banks for participation, or for subsequent purchase. The Panel visualized the Bank's relation with national development banks as one of close and intimate collaboration in all respects.

47. The Panel also considered the relations of the Bank with commercial banks operating in Africa. Again the relation should be one of complementarity, not of competition. The loans and investments of the Bank should be limited to long-term financing; they should thus not compete with the shorter-term financing which is the field of the commercial banks. The commercial banks would be invited to buy the bonds of the African Development Bank, or to buy the securities in its portfolio. Commercial banks could also participate in the loans of the African Development Bank, particularly by taking over the early maturities. The projects and developmental activities initiated by the African Development Bank would naturally create an additional demand for the services of commercial banks, and should thus help to strengthen the commercial banking system in Africa.

48. The Panel also noted the plans for an African Development Institute. Such an Institute could render valuable services to the proposed Bank in training and research. The precise relation of the two institutions should be examined when their outline and functions had become more definite in both cases.

J. FURTHER ACTION

49. The Panel wished to advise the Executive Secretary that it was aware of the difficulties in the way of creating an African Development Bank, but that every effort should be made to remove these and proceed with the establishment of the Bank. The Panel had considered various alternatives and wished that its views should be brought before the Economic Commission for Africa. The contribution of funds and many problems related to the organization and operation of such a bank would require detailed investigation.