Corporate
Finance

Kidder, Peabody & Co.
INCORPORATED

October 31, 1983

African Development Bank

BANQUE AFRICAINE DE DEVELOPPEMENT
AFRICAN DEVELOPMENT BANK

SUMMARY FACT BOOK

This summary book has been prepared by the Corporate Finance Department of Kidder, Peabody & Co. Incorporated. The information contained in this report with respect to the African Development Bank, Inter-American Development Bank, World Bank, Asian Development Bank, and European Investment Bank has been obtained from officials, releases, trade and statistical services, and other sources which we deem reliable. We do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.

Kidder, Peabody & Co. Incorporated has on numerous occasions acted as an underwriter of the securities of the Inter-American Development Bank, World Bank, Asian Development Bank, and European Investment Bank and also acts as a market-maker in these securities. Kidder, Peabody & Co. Incorporated also acts as investment banker for the African Development Bank and will act as an underwriter and market-maker in its securities.

AFRICAN DEVELOPMENT BANK

Description

The African Development Bank (the "Bank" or "AfDB"), established in 1963, provides financial and technical resources to the African region for the economic and social development of its member countries.

In its first twenty years, the Bank was organized and capitalized entirely by African countries. The Bank's capital consists of callable and paid-in subscribed capital stock and reserves. Callable capital may not be used to fund loans and is subject to call only when required to meet the Bank's obligations on borrowings or guarantees. It is especially noteworthy that at March 31, 1983, the total subscribed capital of African members was $3,269.7 million, of which $817.4 million, or 25%, was in the form of paid-up capital.

On December 30, 1982, the Bank amended its Charter to open its membership to non-regional member countries. At March 31, 1983, the Bank's membership consisted of sixty-seven countries, fifty of which were African country members with the remaining seventeen composed of the new non-regional members, which include the United States, Japan, Canada, , and most of the major industrial countries of Europe. The new non-regional subscriptions at March 31, 1983 amounted to $1,699.5 million, of which callable capital totalled $1,274.6 million and paid-up capital amounted to $424.9 million. These member countries are, in effect, both the Bank's shareholders and to the extent of their capital subscriptions, ultimate guarantors of the Bank's obligations. Their collective financial strength within the Bank transcends the individual strengths of each member country's subscription. At March 31, 1983, the Bank's total capital resources amounted to $5,362.1 million, of which $4,637.6 million was callable capital and $724.5 million was paid-in capital plus reserves. The Bank has been profitable in every year since its creation and by policy, has retained all net income by transferring it to reserves.

In the ordinary capital operations of the Bank, loans are made for specific projects which are planned on the basis of detailed analysis and designed to fulfill a priority need in the borrowing member country. These are "hard" loans which have been thoroughly analyzed as to technical and economic feasibility and are fully documented as legal and binding obligations with terms and conditions comparable to commercial loans in the private sector. *These loans are made only to, or guaranteed by, sovereign member governments or to agencies which engage the full faith and credit of a sovereign government. Since the Bank's inception, no borrowing entity has ever defaulted on a loan, and the Bank has maintained its firm policy of not engaging in any loan renegotiations or reschedulings.*

AFRICAN DEVELOPMENT BANK

Ordinary Capital Resources
(Expressed in thousands of U.S. dollars)

FINANCIAL SUMMARY

	Total Income (thousands)	Total Operating Expenses (thousands)	Net Income[1] (thousands)	Total Assets (thousands)	Cash & Investments (thousands)	(Disbursed) Total Loans Outstanding (thousands)
3/31/83	—	—	—	$1,414,477	$228,039	$641,534
1982	$71,284	$57,544	$13,741	1,283,726	181,345	617,882
1981	73,696	61,557	12,138	1,151,746	232,726	530,537
Avg. Annual Compound Growth Rate: 1978/82	17.5%	24.0%	1.2%	12.7%	Negative	17.4%

	Total Capital: Subscribed & Reserves (thousands)	Capital Stock Subscribed (thousands)	Paid-In Capital & Reserves (thousands)	Capital Stock Callable (thousands)	Funded Debt (Net) (thousands)	Total Capitalization (thousands)
3/31/83	$5,362,121	$5,226,415	$724,542	$4,637,579	$400,629	$1,125,171
1982	4,400,887	4,264,138	587,959	3,812,928	407,398	995,357
1981	2,678,843	2,547,815	527,707	2,151,136	375,019	902,726
Avg. Annual Compound Growth Rate: 1978/82	40.5%	42.6%	6.2%	54.7%	19.9%	10.7%

RATIO SUMMARY

	Funded Debt (Net) % Total Capital	Total Callable Capital % Funded Debt (Net)	Net Interest Coverage	Net Income % Total Income	Net Income % Total Assets	Net Income % Paid-In Capital & Reserves (Stockholders' Equity)
3/31/83	7.5%	1,157.6%	—	—	—	—
1982	9.3	935.9	1.37x	19.3%	1.1%	2.3%
1981	14.0	573.6	1.28	16.5	1.1	2.3

	Total Capital % Loans Approved Less Cancellations	Total Capital % Total Debt	Paid-In Capital & Reserves % Total Debt	Total Debt % Total Assets	Cash & Investments % Total Debt	Cash & Investments % Undisbursed Loans
3/31/83	286.7%	777.2%	105.0%	48.8%	33.1%	22.5%
1982	238.0	632.5	84.5	54.2	26.1	16.2
1981	172.4	429.3	84.6	54.1	37.3	24.9

	Total Loans Outstanding % Total Assets	Total Capital % Total Loans Outstanding	Total U.S. Subscriptions % Capital Stock	Total U.S. Subscriptions % Total Loans Outstanding	Total U.S. Subscriptions % Funded Debt (Net)	Subscriptions of U.S., Canada, European Members,[2] Japan % Funded Debt (Net)
3/31/83	45.4%	835.8%	6.2%	50.1%	80.3%	361.3%
1982	48.1	712.3	N.A.	N.A.	N.A.	N.A.
1981	46.1	504.9	N.A.	N.A.	N.A.	N.A.

LOAN & BORROWING LIMITATIONS

Loan Limitation: The Bank is bound by its Agreement to limit its loans outstanding to the total amount of its unimpaired subscribed capital, reserves and surplus, exclusive of the Special Reserve.
Borrowing Limitation: The Bank has adopted a policy of limiting its borrowings to 80% of the callable portion of its subscribed capital stock.

[1] Source: Kidder, Peabody & Co. Net Income prior to allocation to Statutory Commission and to exchange loss or gain.
[2] Selected members include: Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, and Sweden.
N.A. Not applicable.

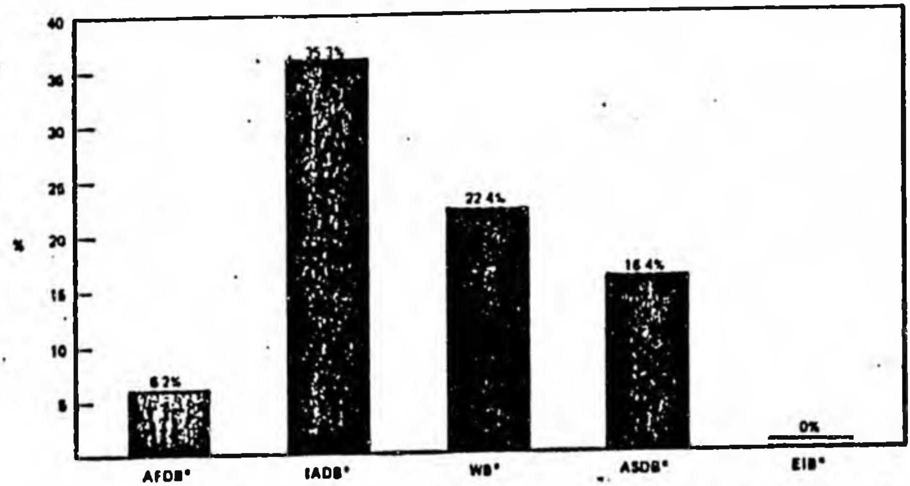
Important Facts About the African Development Bank

- The African Development Bank is located in Abidjan, Ivory Coast, where it is accorded sovereign status by treaty. The Bank has representative offices throughout Africa as well as in London, England.
- At March 31, 1983, the United States subscription to the African Development Bank alone covered the Bank's net funded debt by 80.3%. This compares very favorably to the U.S. subscription coverages (at fiscal year-end 1982) for the World Bank (30.4%), Asian Development Bank (46.3%) and the European Investment Bank (0%). Only the Inter-American Development Bank has a stronger U.S. coverage ratio of 160.0%. (Chart 2)
- At March 31, 1983, when the capital subscriptions of the major industrial nation members of the Bank, including the United States, Japan, and the major European countries, are collectively assessed, their total capital subscriptions covered the Bank's total net funded debt by 361.3%. This compares very favorably to the same coverages of other multilateral development banks' industrial members' subscriptions (at fiscal year-end 1982): World Bank (84.6%), IADB (205.4%), AsDB (170.8%) and EIB (69.6%). (Chart 3)
- Finally, when each bank's full membership subscription is compared to its net funded debt, for the above period of comparison, the African Development Bank reflects the strongest coverage ratio (1,338.4%), when compared to World Bank (147.9%), IADB (488.6%), AsDB (312.2%) and EIB (96.7%). (Chart 4)
- At year-end 1982, the AFDB'S ratio of temporary investments, consisting of government securities and equivalents, to net funded debt amounted to approximately 50.7%. This compares favorably to WB (29.2%), IADB (57.5%), AsDB (71.8%) and EIB (10.3%). (Chart 5)
- At year-end 1982, total equity capital (subscribed plus reserves) of the Bank ($4,400.9 million) provided a coverage of 712.3% of total loans outstanding ($617.9 million), the strongest coverage of the multilateral development banks compared. (Chart 6)
- Total loans outstanding, $617.9 million at year-end 1982, have grown at a compound growth rate of 17.4% for the 1978-1982 period. At March 31, 1983, total loans outstanding ($641.5 million) represented 45.4% of the Bank's total assets ($1,414.5 million).
- Total debt for the Bank (net funded debt plus all other liabilities) at March 31, 1983 represented an amount equal to 48.8% of the Bank's total assets.

ASSET QUALITY RATIOS

UNITED STATES SUBSCRIPTION
% TOTAL STOCKHOLDER SUBSCRIPTION
(Fiscal 1982)

CHART 1



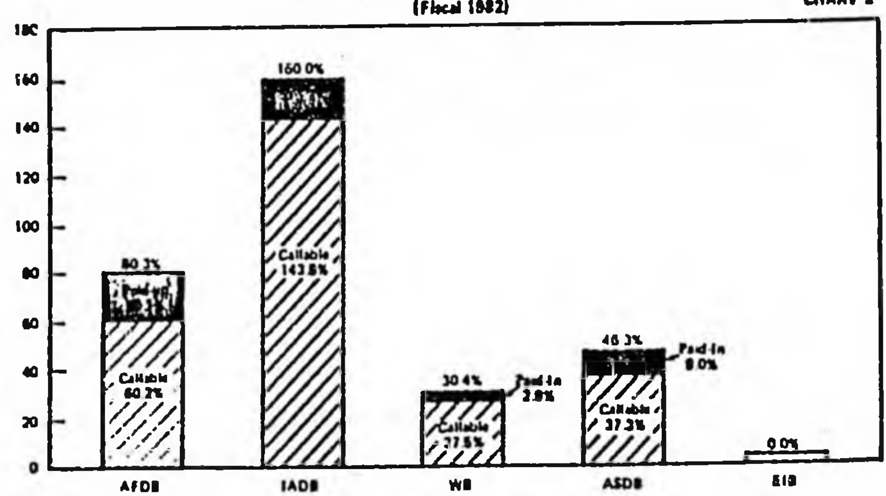
1. Inter-American Development Bank figures include combined Ordinary and Inter-Regional Capital.
2. European Investment Bank figures reflect conversions to U.S. dollars at year-end rate.

(AFDB year-ended 3/31/83

* African Development Bank ("AFDB"), Inter-American Development Bank ("IADB"), World Bank ("WB"), Asian Development Bank ("ASDB"), and European Investment Bank ("EIB").

UNITED STATES SUBSCRIPTION
% FUNDED DEBT (NET)
(Fiscal 1982)

CHART 2

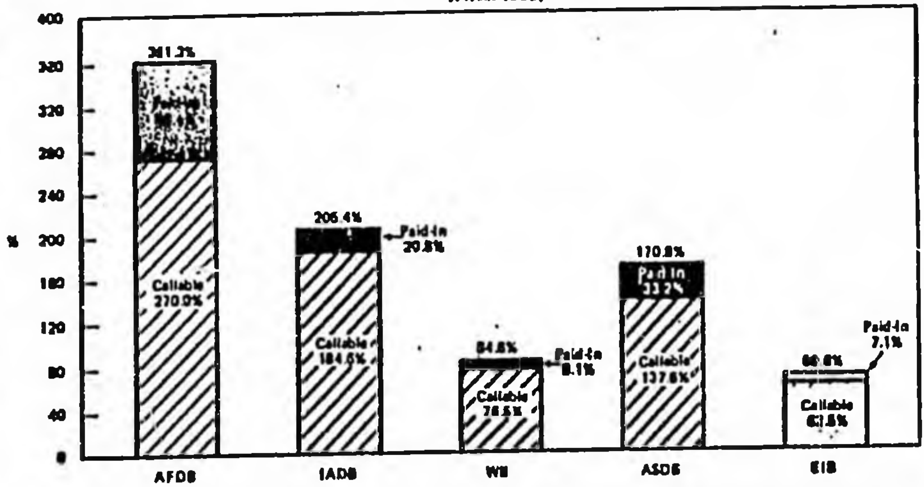


(AFDB year ended 3/31/83

ASSET QUALITY RATIOS

SUBSCRIPTIONS OF:
U.S., CANADA, SELECTED EUROPEAN MEMBERS*,
JAPAN, AUSTRALIA, AND NEW ZEALAND
% FUNDED DEBT (NET)
(Fiscal 1982)

CHART 3

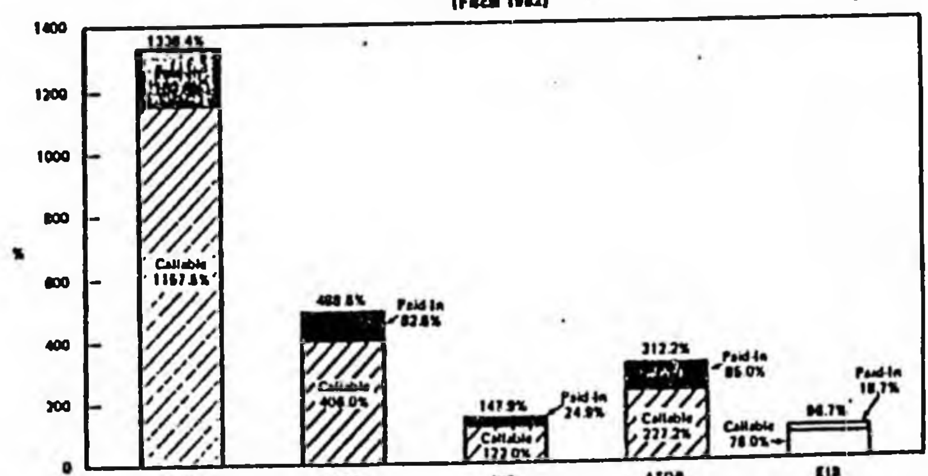


*Members include: Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Spain, Sweden, and United Kingdom.

1AFDB year ended 3/31/83

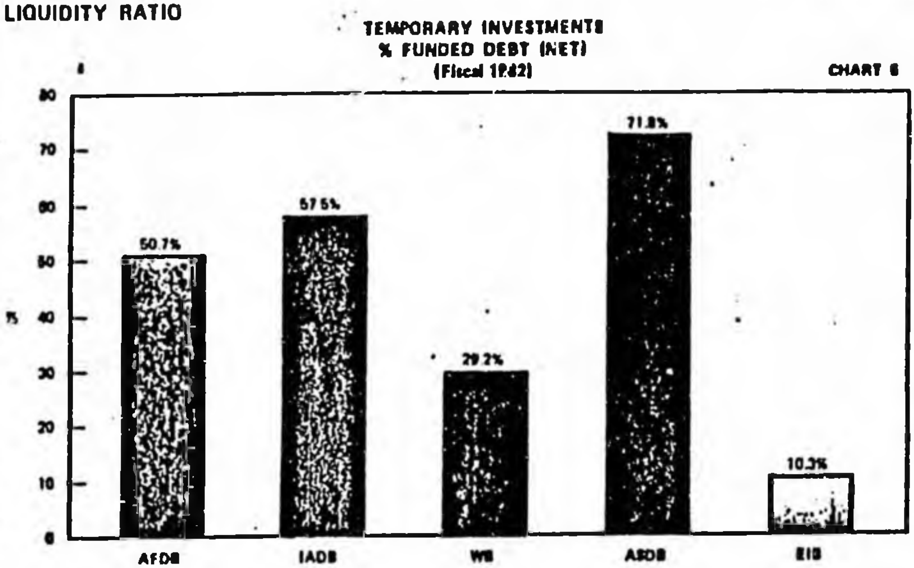
TOTAL SUBSCRIPTIONS PLUS RESERVES
(Total Equity)
% FUNDED DEBT (NET)
(Fiscal 1982)

CHART 4

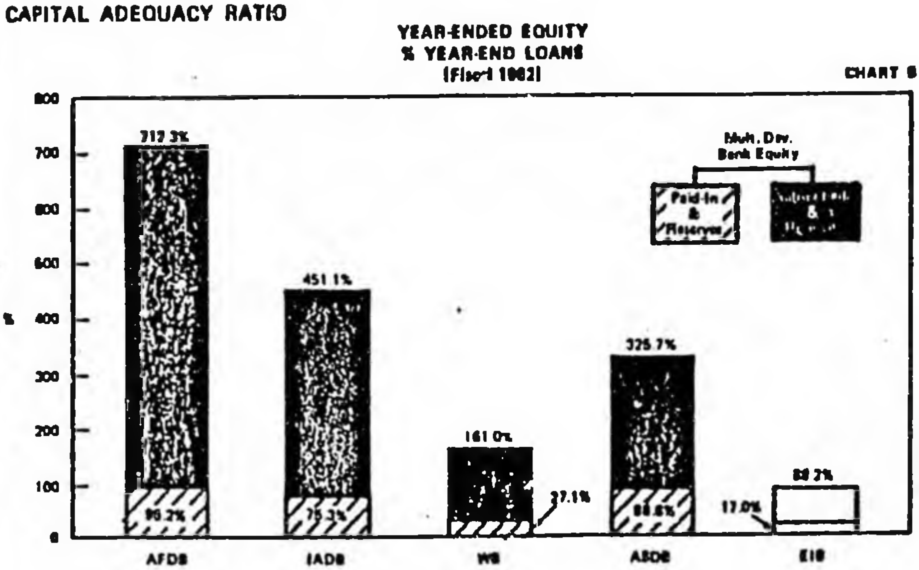


1AFDB year ended 3/31/83

LIQUIDITY RATIO

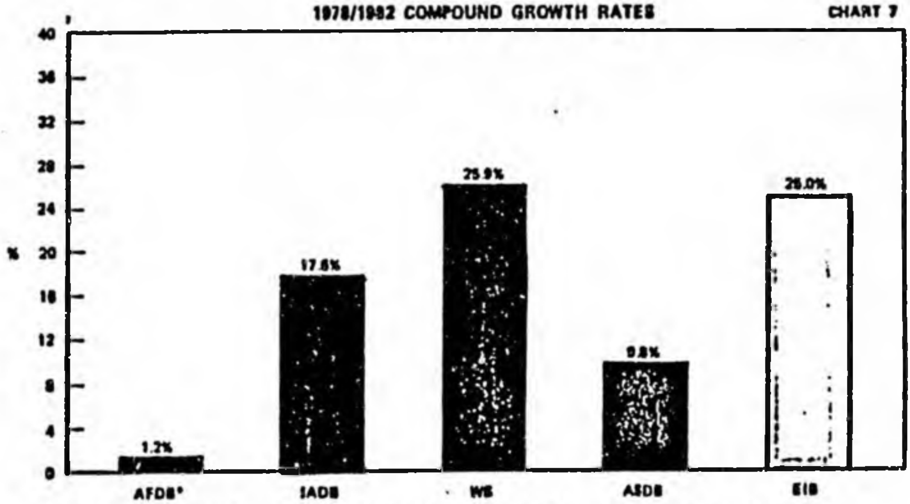


CAPITAL ADEQUACY RATIO



NET INCOME
1978/1982 COMPOUND GROWTH RATES

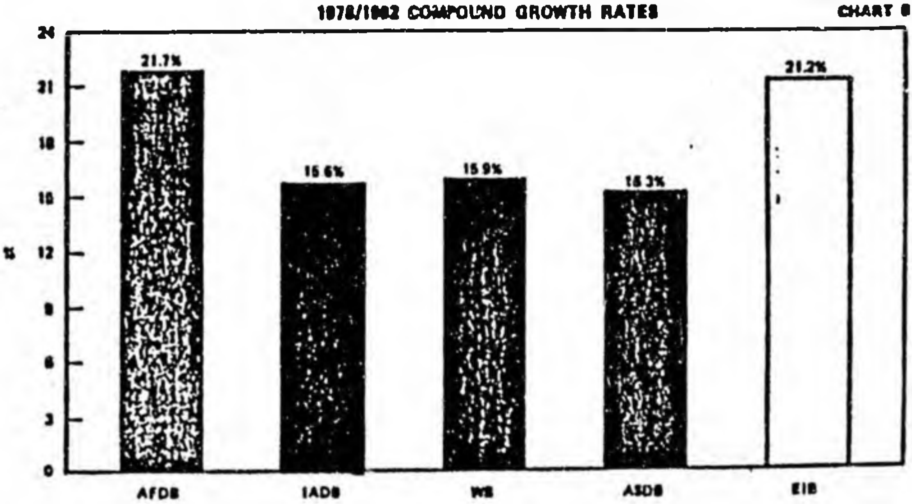
CHART 7



*AFDB figures adjusted to reflect Net Income prior to allocation to Special Reserve and any exchange loss or gain.

TOTAL LOAN INTEREST
OR LOAN INCOME
1978/1982 COMPOUND GROWTH RATES

CHART 8



OUTSTANDING LOANS AND LOAN RATIOS
(Fiscal 1982)

(In thousands of dollars)

		Total Disbursed, Undisbursed and Approved Loans Outstanding	*(Disbursed) Total Loans Outstanding*	*Loans Undisbursed Balance*
AfDB[1]	$ U.S.	$ 1,656,100	$ 641,534	$ 1,014,566
	% Subscribed & Reserves	30.9%	12.0%	18.9%
IADB[2]	$ U.S.	$10,300,673	$ 4,593,778	$ 5,706,895
	% Subscribed & Reserves	49.7%	22.2%	27.5%
WB[3]	$ U.S.	$61,151,746[6]	$29,167,535	$24,978,811
	% Subscribed & Reserves	130.2%	62.1%	53.2%
AsDB[4]	$ U.S.	$ 6,036,704	$ 2,684,629	$ 3,352,075
	% Subscribed & Reserves	69.0%	30.7%	38.3%
EIB[5]	$ U.S.	$19,250,985	$17,594,010	$ 1,656,975
	% Subscribed & Reserves	124.1%	113.4%	10.7%

[1] AfDB figures reflect year-ended 3/31/83 for ordinary capital resources.
[2] For combined ordinary and inter-regional capital resources.
[3] International Bank for Reconstruction and Development.
[4] Ordinary capital resources.
[5] At year-end conversion rate: 1 European Unit of Account = 0.967667 U.S. dollars.
[6] Includes loans approved but not yet effective, and disbursed and undisbursed effective loans.

OUTSTANDING FUNDED DEBT AND FUNDED DEBT RATIOS

	Net Funded Debt (Expressed in thousands of U.S. dollars)	*Net Funded Debt % Callable Capital*
AfDB[1]	$ 400,629	8.6%
IADB[2]	$ 4,241,499	24.6%
WB[3]	$31,760,918	81.3%
AsDB[4]	$ 2,800,713	44.0%
EIB[5]	$16,034,390	128.1%

[1] At 3/31/83 for ordinary capital resources.
[2] At 12/31/82 for combined ordinary and inter-regional capital resources.
[3] At 6/30/82 for International Bank for Reconstruction and Development.
[4] At 12/31/82 for ordinary capital resources.
[5] At 12/31/82 at year-end conversion rate.

For more information about the African Development Bank, or a copy of one of Kidder, Peabody's more detailed analyses on Multilateral Development Banks, please contact:

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212-747-2675

HOUSE COMMITTEE REPORT

(7)
Date Referred: February 22, 1990 FURTHER REFERRALS: FINANCE

Date of Committee Action: 5/1/90

The LABOR & COMMERCE Committee considered: SB 353

SENATE BILL NO. 353 INVESTMENT BY INSURERS IN CERTAIN BANKS

"An Act relating to insurer investments in development banks."

RECOMMENDATIONS:

[ ] be replaced with ______ [ ] the same title [ ] a new title

[ ] have attached amendment(s)

[✓] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the ______ Committee

ADOPTS: ______ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)

[ ] fiscal impact ______

[ ] zero fiscal note ______

[ ] zero with analysis ______

APPROVES PREVIOUS: Senate (Date/Dept)

[ ] fiscal note(s) ______

[✓] zero fiscal note(s) C+ED

[ ] zero fn/analysis ______

SIGNING DO PASS:

Dave Donley Donley

Mark Boyer Boyer

Finklestein

Leman

Boucher

SIGNING: (Check approp. column)

	Do Not Pass	No Rec	Amend

Dave Donley
Chairman's Signature

HENRY LANCASTER, INC.

550 West Seventh Avenue • Suite 1325 • P.O. Box 10-3461 • Anchorage, Alaska 99510 • (907) 278-4729 • FAX (907) 276-4289

May 1, 1990

Rep. Dave Donley
Chairman
House Labor & Commerce Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Chairman Donley:

It was brought to my attention that a question was raised during Labor & Commerce Committee deliberations on May 1, 1990 concerning any association between the African Development Bank and the country of South Africa. The regional members of the bank include 50 of the 52 countries on the continent of Africa. South Africa is not a regional member country.

There are twenty-five (25) non-regional members of the bank and twenty-seven (27) members of the African Development Fund. South Africa is not a member of either of those entities. I have enclosed a section from an AfDB publication that identifies countries where it has invested in projects.

Please do not hesitate to contact me if you have any other questions.

Sincerely,

Henry M Lancaster

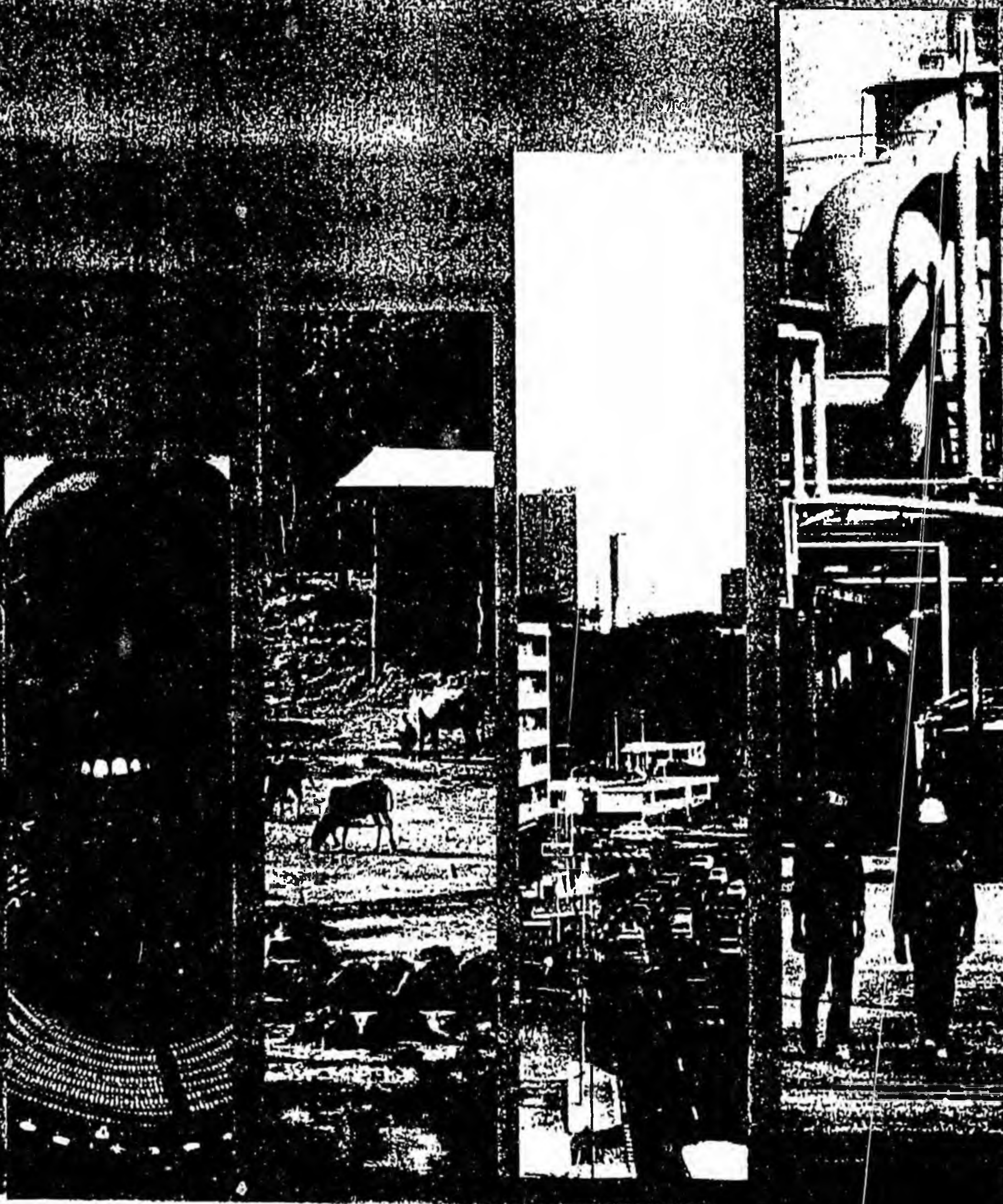
Henry M. Lancaster II
President

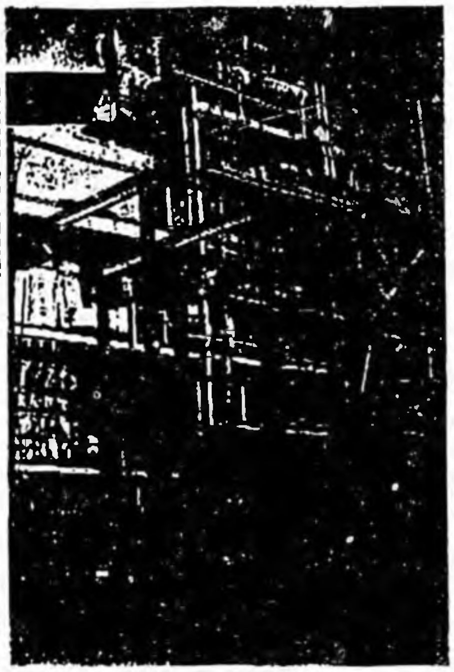
HML:bgm

THE AFRICAN DEVELOPMENT BANK

Reprinted from Institutional Investor

THE HEART OF THE NEW AFRICA





The Sonichar mining project, Niger, co-financed by the AfDB.

Governors in Harare, Zimbabwe, in May 1986, which will govern or strongly influence our activities during the next five year period, 1987–1991.

Q. How much of an increase do you expect to see?
A. We expect to see an increase of 150 percent to 200 percent above the current capital of UA 5.25 billion. That will put us up to about UA 13 billion. I don't think that this is too much, when compared with the four-fold capital increase of the third general capital increase.

Q. Who are your non-borrowing members?
A. All of the non-regional members, in addition to Algeria, Libya and Nigeria. It now appears that Nigeria and Algeria may start borrowing from the Bank.

WHERE THE MONEY IS INVESTED

The AfDB last year devoted 36 percent of its new loan money to agriculture, much of it for food production. In a continent where the race between population growth and food production continues to be a close one, with grave consequences for its inhabitants, this percentage is unlikely to decline. "Agriculture," states S.S. Omari, deputy director of planning and research, "will continue to be the priority sector."

The Bank's overall priorities are laid out in a series of five-year plans. The present plan (1982–1986) has called for total investment of U.S. $7.3 billion for the five-year period, with 33 percent of this amount for agricultural lending. In fact, the proportion of resources devoted to agriculture has been growing in the course of the five-year period. A Bank publication entitled "Agriculture and Rural Development in Africa", states: "The AfDB Group will continue to treat agriculture and rural development as priority areas in the foreseeable future.... Apart from increasing lending to agriculture and rural development, the Bank Group intends to expand technical assistance in the planning, design and implementation of projects."

Other sectorial allocations of new loans last year reflected the Bank's priorities. Transport projects received 28 percent of the new loans; public utilities 21 percent; industry 8 percent; and social services (mostly health and education) 7 percent.

In November the Bank allocated a loan of UA 31.15 million ($34.2 million) for agricultural development in Egypt and an additional UA 18.62 million ($20.4 million) for the fifth stage of a large-scale drainage program intended in part to combat the debilitating disease bilharziasis, which is transmitted by waterborne parasites.

In both cases, the Bank's "hard loans" were supplemented by "soft loans" granted through the African Development Fund (see below). Leonard M. Shango, chief of the Bank's North Africa division, said that the agricultural loan to Egypt will help to finance the purchase of new farm machinery, the establishment of shops for the repair and maintenance of farm machines, the installation of modern seed-cleaning plants and the establishment of two seed laboratories and a farm testing center.

When they are fully operative, these facilities will aid the production of cereals, vegetables and cotton. There follows an overview of some projects, both agricultural and non-agricultural, which the Bank is helping to finance. The list is by no means comprehensive; it serves only as a brief indication of the kinds of activities, throughout the African continent, that the Bank is helping to make possible.

For Settat Province in Morocco, the bank granted a loan of UA 41.63 million ($45.7 million) for integrated rural development. Morocco also received approval for a loan of UA 45 million ($49.41 million) for agricultural rehabilitation.

Among other agricultural-related projects approved for AfDB loans last year were a rubber-growing scheme in Gabon (UA 40.17 million, $44.1 million); the Mahdia rural development project in Tunisia (UA 19.80 million, $21.7 million); and in Zimbabwe, a line of agricultural credit worth UA 20 million ($22 million). The Bank's 1984 annual report describes other agricultural projects for which loans were granted in that year. Among them are the following:

* In Guinea, a fisheries and pisciculture development project to increase the supply of fish for local consumption. The loan was for UA 10.20 million ($11.2 million), to help along a scheme that will cost UA 35.17 million ($38.6 million) over 20 years.
* In the Côte d'Ivoire, UA 6 million ($6.6 million) in new loans was approved for a 20-year program to increase the production of livestock through improvement of breeding stock and management methods.
* In Mozambique, an agricultural rehabilitation project qualified for a new loan of UA 9.6 million ($10.5 million) for a program designed to cost a total of UA 23.62 million ($25.9 million), to expand the production of cashews for export and mangoes and other food crops for domestic consumption.
* In the Seychelles, the Bank committed a new loan of UA 8 million ($8.8 million) to develop fisheries to supply domestic markets and export demand.

NON-AGRICULTURAL PROJECTS

In most of these projects, the AfDB provided co-financing mainly to meet foreign exchange requirements in programs that are strongly supported by their sponsoring governments and in many cases aided by loans from the African Development Fund and other multilateral agencies.

In transportation, the Bank was also active in financing new and ongoing projects. Last year's loan approvals included:

* In the Seychelles, UA 5.70 million ($6.3 million) for the Victoria Commercial Port.
* In the Côte d'Ivoire, UA 56.2 million ($61.7 million) for various road projects, including an improved all-weather road to the Ghana border that will become part of the trans-Africa highway.
* In Zimbabwe, UA 30 million ($32.9 million) for rural roads.
* In Morocco, UA 49 million ($53.8 million) for road maintenance.
* In Zambia, UA 20 million ($21.86 million) for railway rehabilitation.

Beyond the two highest priority areas of agriculture and transport, loans approved during the last two years reflect a variety of approaches to Africa's development needs.

Items:

* Egypt, both a large shareholder and a substantial borrower from the AfDB, was approved for a UA 43.50 million ($47.8 million) financing of its Shoubra-El-Kheima power project.
* Zambia was approved for a loan of UA 33.80 ($37.1 million) for further improvements in its telecommunications system.

Other important projects approved in 1984 included the Serowe-Orapa road project in Botswana; airport studies or physical improvements in Equatorial Guinea and Lesotho; railway improvements in Congo and Zaire; urban electrification in Tunisia, telecommunications in Ethiopia and Mozambique; and a project to improve scientific and technical education in Tunisia.

Other loans were directed to national development banks. As Leonard Shango, chief of the North Africa division, explains, these loans provide funds for projects too small for the AfDB to monitor and supervise effectively. "The national development bank signs the loan agreement and assumes responsibility for collecting the funds and repaying the AfDB," says Shango. "Local people are better able to provide supervision and utilization for such loans."

M. Bouzid, director for West Africa and Central Africa, emphasized the professional care and study that the AfDB staff devotes to loan applications. "We are guided by the sectorial priorities set out in the five-year plan, and with our resources, we are generally able to accommodate almost everyone with reasonable proposals," says Bouzid. "We look at the soundness of the project, the rate of return it is likely to produce and we look for co-financing by other multilateral bodies. We are happy to share the risk with other agencies.

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: SB 353
PUBLISH DATE: 1/25/90

FISCAL NOTE

REQUEST:

Revision Date:
Title: Insurer investments in development banks
Sponsor: Kelly
Requestor: Senate Labor & Commerce

Agency Affected: Commerce & Economic Dev.
BRU: Insurance
Components: Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This legislation would have no fiscal impact on the department in FY 90.

Prepared by: James J. Jordan, Acting Director
Phone: 465-2515
Division: Insurance
Date: 1/18/90
Approved by Commissioner: Larry Merculieff
Date: 1/1/90
Agency: Department of Commerce & Economic Development

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

LW/dg161410-1/11990a

The following is a
special sponsored sect

AF
DEVEL
BANK

Conservative, successful, poised for expansion

COVER ART BY BRETT SMITH/AMERICAN ARTISTS

EARTH SCENES/[illegible]

The following section is sponsored by the African Development Bank, The Chase Manhattan Bank, N.A., Nomura Securities Co., Ltd., and The Bank of Credit and Commerce International.

The editorial material has been written independently by J. Graham Carson, a freelance journalist who analyzes economic, financial and geopolitical affairs for major American, British and Canadian publications.

AFRICAN DEVELOPMENT BANK

Conservative, successful, poised for expansion

A growing development bank with an outstanding 20-year record

Not unlike Africa itself, the African Development Bank (Af.D.B.) has been distant and mysterious to the outside world. But perceptions are rapidly changing. The Bank is moving into the focus of investors. And they are realizing that while the continent is largely promise, the Bank is both promise and performance. The continent is riven by recurrent strife and an inability to concretize a common purpose. The Bank is tightly managed with precise objectives.

There is every reason, of course, for the continent's apparent inability to realize a common purpose. There are more than 50 countries in Africa, many of them nations for less than two decades, some nations in name but in fact ethnic groupings put together to suit the projects and convenience of former colonial powers. The European community, with far fewer countries, is hardly united in common purpose; it would be remarkable if Africa were more focused.

What is remarkable, therefore, is the purposefulness of the Bank and the way this purposefulness is understood and supported by its members through the most concrete of commitments: the commitment of cash. Despite the well-known economic difficulties of many of the African countries, they have continued, nevertheless, their periodic cash contributions to the Bank's capital with noteworthy promptness and regularity. More remarkable still, they have done so in convertible currencies, despite their well-known foreign exchange shortages. Most remarkable of all, the Bank has the highest ratio of paid-in capital of any multilateral development bank—by a wide margin. Where others would be happy to have 10 percent paid in, the African Development Bank has no less than 25 percent paid in.

This commitment is demonstrated as well by the way the African countries have always agreed to support the Bank's capital increases despite their political disagreements, according to M.L. Yuma, Secretary General of African Development Bank. And it has been reaffirmed by the way they have continued to make contributions despite current account deficits, says Vice President Samuel Ogunleye. For a number of countries this represents "a sacrifice," notes Ogunleye. "Uganda is a good example," he says. "Everyone knows how they've been affected by economic problems, yet they have made great efforts to keep up their contributions." While there have been some press reports about capital subscription arrears in the Bank contributions of some countries, Af.D.B. officials demonstrate that the problem is exaggerated.

NON-REGIONAL CONTRIBUTIONS EXPAND THE BANK'S POTENTIAL

The strong commitment by African member countries to the Bank is evident throughout the Bank's history—and in fact it derives in part from that history. For most of its existence—for the 19 years up to December 30, 1982—the African Development Bank depended entirely and exclusively on African countries for its capital. Unlike its sister institutions, the Inter-American and Asian Banks, which were godfathered at their inceptions—the former by the U.S., the latter by the U.S. and Japan—the Af.D.B. very deliberately chose to grow up on its own. Until last year, it refused to accept contributions from non-African nations.

That it finally did so, in fact, was due to certain obvious advantages it gained in the process. That it did so on such a limited scale—accepting non-regional contributions for only one third of its capital, and amending its constitution so that these contributions cannot obtain a majority—is testimony to the fact that the Bank continues to primarily look for its future development from the commitment of the African members and, to a lesser extent, its non-African partners.

A New York banker familiar with the situation sums up the African Development Bank's rationale for taking the outside money in two key words: "leverage and resources." As Edward J. Waters, Vice President in Corporate Finance of the New York investment banking firm of Kidder, Peabody & Co. Incorporated, sees it, the African Development Bank is adding significantly to its borrowing power, based both on its improved credit and additional capital and leverage.

He and other outside observers, in Japan and Europe as well as the U.S., stress that although the Af.D.B. has managed perfectly well without the non-regional participation for many years, the addition of the industrialized countries would clearly increase the Bank's contribution to the development of Africa. The industrialized countries would also benefit significantly in this accelerated progress.

That the Bank was managing perfectly well without the industrial members' capital is one reason it took the management three years to get the principle of non-regional membership approved by the African members. The other reason, of course, was their determination to keep running their own show—and to avoid all possibility of its domination by the more powerful economies of the industrialized countries.

That the Bank persevered and finally got the increase through is a tribute, in the opinion of the New York commercial banker mentioned earlier, to the skills of its management.

"President Wila Mung'Omba has kept things in place and kept the boat on an even keel in a stormy environment," he says, and he characterizes this as "quite an achievement."

EXCEPTIONAL MANAGEMENT, AN EXCEPTIONAL RECORD

Management in fact, in the view of financial market investors, is one of the most important of Af.D.B.'s strengths. "The management of this institution compares most positively with that of any financial institution anywhere in the world," states Kidder, Peabody's Waters, who knows financial institutions everywhere. Waters says the degree of commitment of the managers is the aspect of the Bank that is most impressive. Another is the level of Af.D.B. management's ability and experience, says his colleague S. Melvin Rines, also a Vice President with Kidder, Peabody and who has worked with Waters on in-depth studies of all the multilateral development banks. As Rines notes, "Why not, they have been educated at the best graduate and post-graduate universities in the world." Moreover, adds Waters, "there is no better tribute to their abilities than to recognize that they have successfully managed this development bank in the most underdeveloped regional economy in the world, without any blemish on the Bank's loan portfolio, nor any rescheduling of it as well."

A glance at the curricula vitae of some of the Bank officials confirms these remarks. Mung'Omba, who formerly was a senior executive of the Standard Chartered Bank in London and an Executive Director of the International Monetary Fund before joining Af.D.B., holds a law degree from London University. Finance Vice President Babacar N'Diaye holds an advanced graduate business management degree from France's prestigious Ecole des Sciences Politiques, and in addition he holds an equivalent Chartered Public Accountant degree from France, Diplome Etat d'expertise comptable. K.K. Dei-Anang, the Bank's General Counsel, has degrees from the Oxford School of Jurisprudence and from the London School of Economics. Among the Bank's Executive Directors, there is Rolf M. Jeker, a Swiss who holds a PhD in Economic Business and Public Administration from St. Gall Graduate Institute. And there is Pierre Moussa of Chad—not to be confused with his namesake from France—who has university qualifications from Paris' Faculté de Droit et des Sciences Economiques. Ibrahim M. Hamed, Vice President for Administration, holds a Bachelor of Commerce from Egypt's Aim Shams University: he has also been Undersecretary of State in charge of the office of the State Ministry for Management and Development in Egypt. Every manager of the Bank is similarly qualified.

The Bank's record with its loans and projects is no less distinguished. As far as loan losses are concerned, the record is clear: it has none. As far as successful completion of projects is concerned, the record is equally impressive: Vice President Donatien Bihute (a Swiss-educated former World Bank Executive Director) says that of 240 projects completed to date, only 14 could be described

KOSSI KOKOU

Pierre Moussa, Af.D.B.'s Executive Director, says that once Africa meets its food production needs, it "shows all continent a potential market."

as problems, and these only on the basis of whether the projects achieved their planned objectives.

RIGOROUS LOAN PROCEDURES

The record is due to a strict adherence to a set of procedures that are not only rigorous but thoroughly tested. In many instances, as the Af.D.B. is quick to acknowledge, it has the advantage of the other multilateral development banks' experiences. Rolf Jeker observes that many of its procedures had been established, and many of their wrinkles ironed out, even before the African Bank came into existence.

The "project cycle" which the Af.D.B. applies to every job, for instance, is patterned on the six tried and true steps taken by the World Bank: 1) *identification of the project*—by Af.D.B., by the country or countries concerned, or by another development institution such as the United Nations specialized agencies, the World Bank, or the Inter-American Development Bank; 2) *project preparation*—including such key stages as feasibility and engineering studies; 3) *appraisal*—to ensure not only that the project is financially and technically practical but that it is both socially and economically rewarding to the borrower as well; 4) *loan approval*—which includes negotiations with the government or governments involved on the extent and terms of Af.D.B. participation; 5) *supervision;* and 6) *post evaluation*. After the preparatory stage, the processing of the project through to the board, according to Christopher Kahangi, Director of the Bank's Central Project Units who studied industrial management at M.I.T., takes an average of 18 months before work gets under way—an indication of the thoroughness with which the Bank approaches each project.

The last two stages are most important and deserve elaboration. As Finance Vice President N'Diaye points out, "One of the biggest differences between us and other multilateral development banks (MDBs) is that they are managed by people from their lending countries, which are mainly industrial, and we're managed by people from our borrowing countries—which are entirely African." This enables the African Development Bank to know its borrowers better, and—if possible, since all MDBs are extremely rigorous in their supervisory procedures—to control its disbursements even more carefully.

Vice President Bihute and General Counsel Dei-Anang emphasize several key points with regard to the precautions taken by the African Development Bank to make sure its money is used properly:

- Af.D.B. makes no loans at all unless they are guaranteed by the government of the country concerned.
- "Af.D.B. participation, as a matter of policy," says Bihute, "is limited to the foreign exchange component of a project."
- Af.D.B. reimburses contractors for expenditures, and does so only when they prove they have made them. "We won't just shell out a blank check," says Dei-Anang. In principle, he goes on, "we have to see that you've procured what you said you were going to procure, then we'll reimburse you." In practice, he adds, under the pressure of the foreign exchange shortages of some borrowers, the Bank has partly relaxed this rule: "On the recommendation of Price Waterhouse, we have evolved a system under which, once the borrower proves it has placed an order, we make payment under letters of credit—to the suppliers."
- Af.D.B. has strict surveillance measures in force. "To the suppliers" is the key phrase in the exception above. The African Development Bank goes out of its way to avoid irregularities. The Bank has developed various measures for bringing pressure to bear: for instance, says Dei-Anang, because of its volume of business, the Bank has developed clout with suppliers and contractors—and, in the worst case, it simply stops doing business with them.

Borrowing countries are anything but eager to be cut off from Bank funds, for the simple reason that they cannot borrow as cheaply anywhere else. Besides, as Dei-Anang points out, on a $5 million project, the Bank's contribution might be $2.5 million, spread over 25 or more items—so the possibilities for large scale embezzling are just not there. Concludes Dei-Anang: "We work closely with the other multilateral development banks and we know their experience is the same; it is just very difficult to misappropriate funds from the MDBs."

- To reinforce these procedures, the bank employs strict credit and *post facto* controls. Quite apart from the Bank's team supervising any project, says Secretary General Yuma, there is a separate team of auditors keeping an eye on the extent to which the project is meeting expectations. And behind them, says Yuma, comes "a special division which does post-evaluation; it gives an independent opinion on how the project was conceived, how it was supervised, and how it was executed." How disinterested is the opinion? "They're very independent," says Dei-Anang.

A HISTORY OF SUCCESSFULLY COMPLETED PROJECTS

One result of the efficiency of such procedures is a record of which the Bank's management is visibly and understandably

UNITED NATIONS/Y. NAGATA

proud. Among the more striking achievements are its part in the financing of a Trans-Sahara road, which will link Algiers to Lagos, and the fact that, as West and Central Africa country Programmes Department Director Mohamed Bouzid says, the enormous and ambitious project is proceeding according to plan.

While the Trans-Sahara stands out because of its inherent appeal to the imagination, dozens of other Af.D.B. projects are playing vital roles in the development of Africa. Vice President Bihute talks of a power project in Gambia, which was completed at estimated cost and below estimated time—to the country's great advantage; the Kapiri Glass Project in Zambia, which was not only completed ahead of schedule, but also with enough savings to finance an extra furnace. President Mung 'Omba says, "One can't count the number of schools and hospitals we've helped to build." I.B.C. John, the Agricultural and Rural Development Director, says the outstanding projects in his area have involved irrigation. Most of them are relatively small, he says, but they make significant contributions: "In Malawi, we actually got farmers to double their maize yield in five years, in one rural project."

While nobody pretends that 100 percent of the Bank's projects go according to plan, the percentage that does is remarkably high. The Bank has had serious problems—cost overruns or unwarranted delays—on only 6 percent of completed jobs. And the principal problem makers have been mining ventures—where problems have arisen largely because of the recession-induced fall in world commodity prices.

Nobody pretends either that problems do not exist. Executive Director Moussa bemoans the shortage of research and statistics. "There are only a few regional agricultural research institutions in the whole of Africa," he says, "and when you look for the research budgets of governments, you generally find there aren't any." It is difficult to envision progress without research, he goes on, and the Bank is doing something to encourage it, by including research allocations in its projects—sometimes against the real desires of the countries concerned, since they do not like paying the research money back.

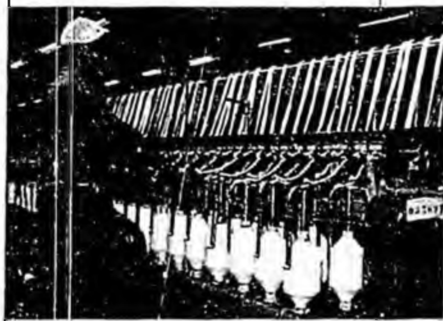
SETTING PRIORITIES THAT MATCH AFRICA'S NEEDS

The other overriding problem in Africa, Moussa says, is that malnutrition destroys not only people but productivity. This, too, is a problem the Bank is doing something to solve—indeed a solution is the Bank's overriding policy goal. "The operating program for 1982-1986 provides that the bulk of our resources (slightly over one third) will go to finance agricultural and rural development programs," says Bihute, "with special emphasis on food production."

There is no question that this is the emphasis of the African Development Bank's President, who speaks movingly of the underfeeding that besets the people of the continent. Mung 'Omba stresses the point, moreover, that the relief of hunger in Africa is a worthy economic goal as well as a humanitarian objective. "The continent is not going to be a prosperous market until the people can feed themselves," he says.

Yet he and other Bank officials stress that, while they are allocating a high percentage of the Bank's resources for this goal, they are doing so on sound banking principles. On the one hand, suggests one Bank officer, "there is a desperate need for a given project—the people can't work as hard as they might because they are sick, and their productivity is low because they are hungry." But on the other hand, he adds, "we have to look at the viability of the project, to be sure it can generate sufficient income to pay back principal and interest."

"We never forget," says still another senior Af.D.B. executive, "we are a bank." ⦿



CYNTHIA JOHNSON/GAMMA-LIAISON

Quality control at a textile plant in [illegible] the Ivory Coast

SCREG

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Sound banking principles and total professionalism: An interview with Wila D. Mung'Omba, President of the African Development Bank

When you talk to potential investors about the Bank's securities, which are the strengths that you personally stress?
The most important is the management and staff. It is vital for outsiders to know that we have a cadre of personnel who can handle the bank's business efficiently.

Second, it's very important to the investor to know that we insist on adhering to the normal banking principles that are practiced by every financial institution in our line of business. We continually insist on technical, economic and financial viability for all our projects. This means that we only finance viable projects–to ensure that each project generates sufficient revenue in one form or another to pay for itself, and thus minimizing or altogether removing the possibility of default.

What do you emphasize in the capital structure area?
That the African Development Bank has been extremely conservative in its gearing–with 25 percent of the capital paid-in. This insistence on having such a high proportion of capital paid-in has actually placed us out of step, in a favorable sense, with the other multilateral development banks (MDBs), because our ratio of paid-in to callable capital is so high.

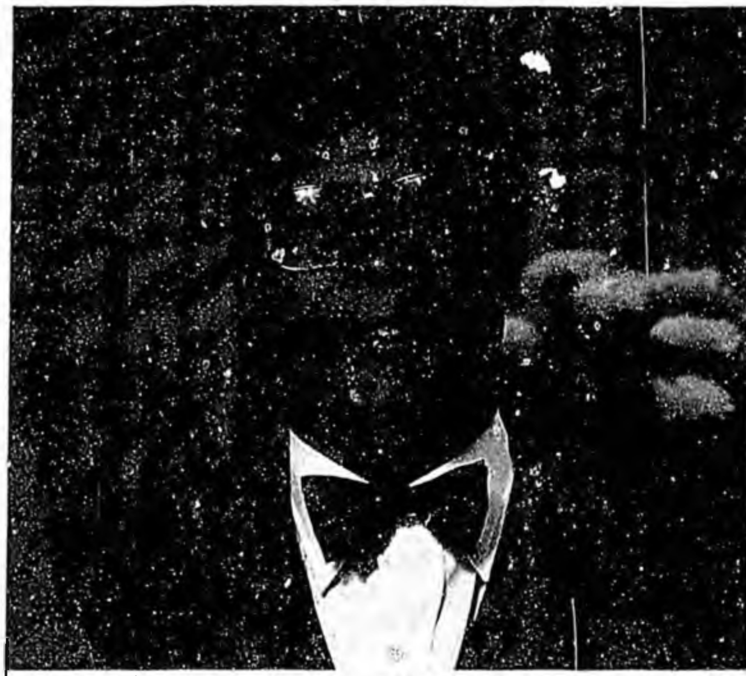
Next, it is important to mention the support the regional member countries have given, and finally–and this is something investors have been looking forward to for a long time–the admission to membership of non-regional countries.

This is important because the wise investor prefers to lend to an organization with which he is familiar. That was one of our primary reasons for opening our doors to non-regionals: we knew that investors in the industrialized countries would feel even more confident in our securities if they knew they were dealing with investments which have the backing of their own governments.

You mentioned the quality of your professional staff as the first strength of African Development Bank's securities. Is there any way to quantify this quality?
The first way is the fact that the professionalism of our staff is borne out by outside institutions, the co-financiers who agree to join in financings with us. Our analysis of projects, our administration of loans, the keeping of our books, the handling of the Bank's assets–none of these have been found wanting by the outsiders we've been working with.

Secondly, there is the dedication of the staff, demonstrated by the way we have been able to increase operations without increasing personnel at anything like the same pace. When I tell outsiders we have only between 400 and 500 professionals on our staff, and relate that to the number of projects we handle [the African Development Bank and its affiliates have been getting an average of more than 70 new projects under way per year], they won't believe it.

Thirdly, the academic qualifications of the professional staff are very, very impressive. We now insist that we cannot recruit anyone as a loan officer, for instance, unless they have at least



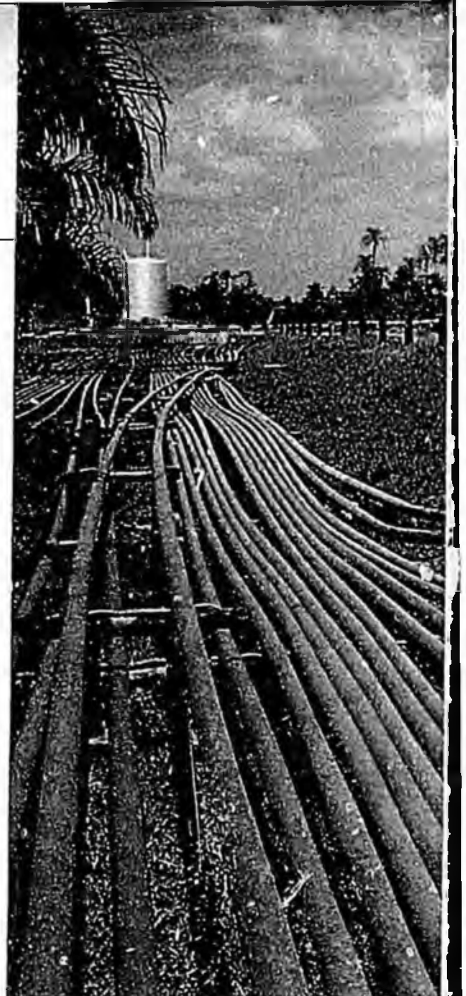
MARK STANLEY REINSTEIN

Wila D. Mung'Omba: "We only [illegible]

a master's degree in economics, finance, or a related field, and that that degree be accompanied by at least five years' experience in a field related to the work they'll be doing. We have more than 2,000 applicants for professional jobs at any given time, and we'll soon reach a point where we will be giving preference to people with [even more] senior degrees.

With the changes in the capital structure, you've brought the wealthiest countries in the "Western" world in as backers of your securities. Do you envision any further changes, in terms of shareholding?
No, I don't. One of the reasons we opened up our capital structure was our desire to continue to find ways to attract capital to Africa, and I think we have now tapped the main ones that have sufficient capital to export.

Now that you have Western governments as shareholders,


ABBAS/GAMMA-LIAISON

will you be under any pressure to take the type of action some people in Washington have been urging on the multilateral development banks—of guiding member borrowers toward the liberalization of their economies?
Only in the event of a request from an individual borrowing member can we do so. As an institution, we are prohibited from any attempt, overt or covert, to impose any sort of economic policy on our members. We are actually barred from doing so by the Bank's Charter.

Despite this, do you feel there is a general tendency in your member countries toward less controls and subsidies and central planning, and more reliance on the market mechanism?
Looking around the continent, with the direct contacts between the IMF—which does not insist on observance of these criteria—and our member countries, there is a lot of liberalization going on in Africa today.

Within the limits of the Charter which you mentioned, how do you see your role as a bank evolving?
I don't see it going only in the direction of putting money into the African economies. I do see it evolving not only as a financial but also as an economic institution. It should expand on the activities it has started in order to supplement its own activities. For instance, institution-building. We've created, or helped to create, such institutions as SIFIDA, an investment institution based in Geneva, the Association of African Development Finance Institutions, the African Re-Insurance Corporation, and Shelter Afrique (an institution that will work on the problem of providing housing throughout the continent).

How do domestic political events and the domestic policies of member countries affect the operations of the African Development Bank? The recent change of power in Upper Volta, for example?
I like to think this is an aspect for which we must be proud of those who first conceived the Bank. They created an institution which was really above the domestic problems of individual countries. Events in Upper Volta would not have any effect on our operations.

The only way in which changes in domestic situations may impact us is when there are changes in the organization of countries and these changes affect our implementation of projects. To that extent domestic politics do have an effect on our operations, but I must add very quickly that, when such interruptions have occurred, the governments concerned have been very quick to contact us to see how we can work with them. ⊙

Financial strengths endorsed by analysts and investors

"The credit of this Bank compares most favorably with the credits of the Inter-American Development Bank (I.A.D.B.), the Asian Development Bank (As.D.B.), the World Bank and the European Investment Bank (E.I.B.)," says Edward J. Waters, with the concurrence of S. Melvin Rines, both Vice Presidents in Corporate Finance of the New York investment banking firm Kidder, Peabody & Co. Incorporated.

To the international investor, there are two particularly interesting aspects to this uncompromising statement. One is the quality of the institutions to which Waters and Rines are favorably comparing Af.D.B. All four of the multilateral development banks are rated triple-A by Moody's and Standard & Poor's, and that in the financial markets these credits are regarded as superior to all but the most superior of all sovereign credits.

The other point of particular significance about Waters and Rines' analysis is the quality of the corporate finance analysts: the Kidder, Peabody officials have made a series of studies of the MDBs, and their thoroughness has made them the leading authorities on Wall Street, and probably anywhere in the world, on the creditworthiness of these institutions.

In the past three years, Waters and Rines have done in-depth analyses of the As.D.B. (running 173 pages), of the I.A.D.B. (running 188 pages), as well as reports on the MDBs as a group. During this summer they have concluded extensive research on a similar basis for the Af.D.B. In a number of areas of crucial importance to investors, they found, Af.D.B. comes out ahead of all the others:

• At year-end 1982, the total equity (subscribed capital and reserves) as a percentage of total loans outstanding was 712.3 percent for African Development Bank. By comparison, the respective percentages for the Inter-American Development Bank (at June 30, 1982), Asian Development Bank (at Decem-

Pipelines bring oil to the [illegible] station at [illegible] in [illegible] [illegible] production.

ber 31, 1982), World Bank (at June 30, 1982), and European Investment Bank (at December 31, 1982) were 451.1 percent, 325.7 percent, 161 percent, and 88.2 percent.

• Also for these periods, "stockholders' equity" (paid-in capital plus reserves) as a percentage of total loans outstanding was 95.2 percent for Af.D.B., against 75.3 percent for I.A.D.B., 88.6 percent for As.D.B., 27.1 percent for the World Bank and 17 percent for E.I.B.

• In terms of long-term debt to subscribed capital plus reserves, African Development Bank also offered the most conservative structure. For the periods noted above, its percentage of 8.5 percent compared favorably, Waters and Rines found, with 17 percent for I.A.D.B., 24.3 percent for As.D.B., 40.3 percent for the World Bank and 50.8 percent for the E.I.B. When long-term debt is compared only to paid-in capital plus reserves, these figures reflected 40.9 percent for Af.D.B., 55.1 percent for I.A.D.B., 54.1 percent for As.D.B., 80.1 percent for World Bank, and 84.3 percent for the E.I.B.

It is important to note that the African Development Bank percentages above were calculated without including the capital subscriptions of the United States and some other non-African member countries which were not formerly admitted until early 1983. Waters and Rines also calculated the ratios above at March 31, 1983, when the full non-regional contributions had been fixed and the results were of course even more favorable to Af.D.B. Total equity as a percentage of total loans rose to 835.8 percent. Paid-in capital and reserves alone as a percentage of total loans rose to 112.9 percent. And the percentage of long-term debt to total capital subscriptions and reserves was reduced to 7 percent, while long-term debt to the Bank's paid-in capital and reserves dropped to 35.6 percent.

• On the same basis, comparing the African Development Bank at March 31, 1983 to the periods noted above for the other MDBs, in terms of the coverage of net funded debt by the newly subscribed capital of the industrialized countries alone, the African Development Bank shows the strongest percentage of all the MDBs. While the I.A.D.B. and As.D.B. have impressive percentages of 205.4 percent and 170.8 percent, and the World Bank and E.I.B. have 84.6 percent and 69.6 percent, Af.D.B., has no less than 361.3 percent. As Waters and Rines point out, "the subscribed capital of the United States alone covered 80.3 percent of the African Development Bank's net funded debt."

RAPID PROFIT GROWTH AHEAD

Moreover, for these same periods, the liquidity position of the Af.D.B. as a percentage of total funded debt of 56.9 percent compares quite favorably with that of the I.A.D.B. (57.5 percent), World Bank (29.2 percent), As.D.B. (71.8 percent) and E.I.B. (10.3 percent).

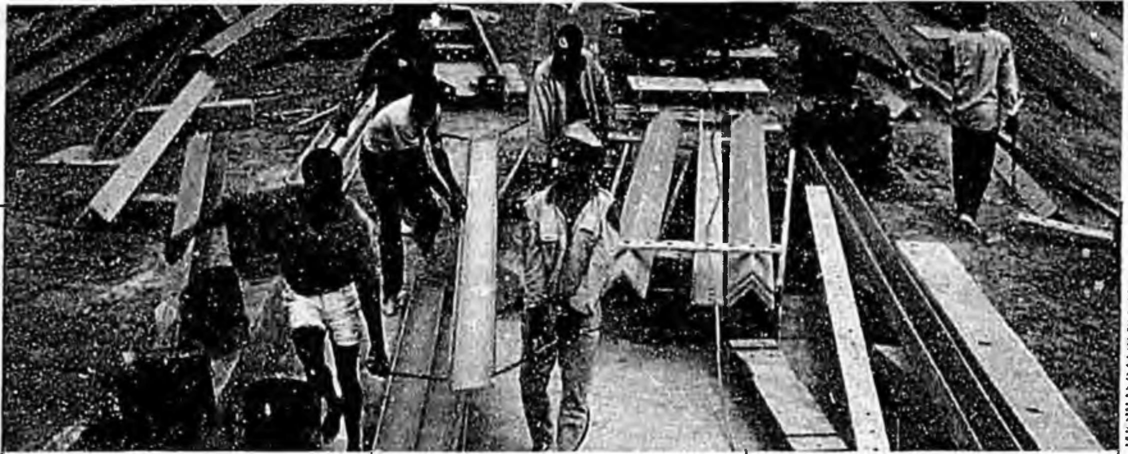
Not surprisingly, the Kidder, Peabody analysis showed that the African Development Bank was not stronger than its opposite numbers in profitability. In terms of net income growth, for instance, the other MDBs as a group reported annual net income growth rates of 17.6 percent, I.D.B.; 25.9 percent, World Bank; 9.8 percent, As.D.B.; and 25 percent, E.I.B. over the past four years, while Af.D.B. reported a growth rate of approximately 1.2 percent during this period.

Nevertheless, authorities on MDBs regard this shortcoming as less than especially serious, for two reasons. First, Af.D.B. kept its profit margins deliberately low as a matter of policy. Second, now that it is making more use of the international capital markets, it has adjusted lending rates to reflect these costs and fully anticipates that the Bank will achieve a net income growth rate of approximately 36.1 percent over the 1982-1986 period.

Kidder, Peabody says that as a development bank Af.D.B. "held the view that it was more important to make lower interest rate loans to its members than to accumulate net income in the form of reserves" on behalf of those same members. And, as Bank officials observe, Af.D.B. had two other good reasons for keeping its lending rates low. One was that it wanted to build its asset portfolio, and to get itself recognized by member countries as a key source of funds. The other was that it could afford to charge low rates because such a high percentage of its funding came from paid-in equity capital, on which, of course, it paid no interest.

With all these factors favoring low lending rates, Af.D.B. was actually charging as little as 7 percent on its loans as recently as the middle of last year, when world market rates were so high that the U.S. government was borrowing at 14 percent. Since then, this policy has been amended; the current lending rate for the Af.D.B. is 9.5 percent, and in future the Bank will review its lending rate periodically to take account of changing economic conditions—and set the rate to reflect its marginal cost of borrowing.

This policy change, paradoxically, will help rather than harm the economic situation of borrowing countries. While it will raise their borrowing costs, it will enable them to borrow more, because it will enable the African Development Bank to raise more and lend more. Moreover, it will



WORLD BANK PHOTO

still permit member countries to borrow at rates far lower than those they could obtain on the open market—significantly lower, in practice, than the 11.5 percent currently being paid by the U.S. Treasury. The members that cannot afford to pay any interest at all will continue to borrow from the African Development Fund, a concessional fund administered by Af.D. B., but whose loans, under the Bank's constitution, represent no liability of any kind to the Bank.

While, according to Kidder, Peabody's calculations, the Af.D. B.'s new interest charges will have an extremely significant effect on the Bank's net income (a compound growth rate of 36.1 percent for the 1982–1986 period) and will reinforce Af.D.B.'s credit accordingly, the basic strength of this credit is, nevertheless, the paid-in and callable capital of its members. And now that the industrialized countries have added their cash contributions as well as their moral backing to the commitments of the African nations, that basic strength is more vigorous than ever.

GROWING RECOGNITION AMONG INTERNATIONAL INVESTORS

The African countries are rightly proud of the fact that, until they decided on a major expansion of Af.D.B.'s activities to accelerate Africa's development, they had financed their Bank very handsomely on their own credits. As Irving Friedman, the former top IMF official who is now an advisor to Af.D. B., says, one of the strengths of the Bank is that "the [regional] membership has shown a high degree of responsibility in meeting their obligations to the Af.D. B." Another is that the Bank "has a good—a very good—standing among those who have lent to it."

Among those who have lent to Af.D. B., and who have organized loans to the Bank by lead-managing issues, there is a strong feeling that the addition of industrialized countries to the membership will add immeasurably to Af.D. B.'s securities' appeal. Uwe F. Flach, a senior official of Deutsche Genossenschaft (D.G. Bank), which led Af.D. B.'s 100 million deutschemark issue in September, 1982, mentions as the chief appeals to investors the facts that "Af.D. B.'s paid-in capital approximately equals its long-term and short-term liabilities, its approved loans represent only 43 percent of subscribed capital, and disbursed loans represent only 14.5 percent." In addition, he says, it is noteworthy that Af.D. B. has the highest percentage of paid-in capital of all the supranational organizations, and the debt-equity ratio is a "convincing argument" from the investor's viewpoint. Furthermore, he continues, the recent opening of the captial to non-African states, and the one-third participation of the industrialized nations in the capital of the Bank "has upgraded the investment quality in the eyes of European investors, individuals and institutions alike."

From Tokyo comes a similar but more emphatic impression. Japanese investors are impressed with the quality of Af.D. B.'s management, its loan portfolio, and its capital structure. Yet to them the overriding consideration is the commitment of the industrialized nations in general, and Japan in particular. "Western summit member countries' capital share in the Bank is the most decisive factor in determining its creditworthiness," says Koichi Kimura, a senior official of Daiwa Securities, while Masao Kumon, a managing director of Nomura, observes that "sophisticated investors will not hold any doubt about the creditworthiness of the Bank due largely to the fact that Japan has joined the Bank." Moreover, Japan's joining more or less guarantees that Af.D. B. will enjoy excellent borrowing terms in the big Japanese capital market. "Supranational financial institutions with Japanese government participation are ranked at the top of the Tokyo capital market," says Yoshihiko Ando, general manager of the international division at the Long Term Credit Bank of Japan: Af.D. B. will be treated, he says, like the World Bank, Asian Development Bank, and Inter-American Development Bank—"as first-class issuers."

And the United States? As DG Bank's Flach points out, "the African Development Bank is regarded [by European institutions] as by far the best risk in Africa." With endorsements like his and those of the Japanese institutions, it should not be long before U.S. investors form the same judgment. At the moment, says Irving Friedman, the most common reaction when he talks with financial people, is the proverbial blank look: "lack of acquaintance, sheer ignorance." He adds, though, that when he tells them what Af.D. B. is, "there is a very keen interest, an easy acceptance of the fact that African Development Bank is like the other regional development banks." Given the good name of these others in the U.S., and the uncompromising recommendation of Waters and Rines, Af.D. B. should be sure of a welcome in the American and international capital market. ⊙

Growing recognition in the international marketplace: An interview with Dr. Rolf M. Jeker, Executive Director of the African Development Bank

When you talk with other international financial people about the African Development Bank, is there anything they find surprising?
Many investment bankers and bond dealers have not heard a lot about our institution. This is because, in the past, it operated on a relatively low level. The African countries paid in a very high percentage of subscribed capital, and this was mainly the resource base for the Bank to operate—there being no intention to borrow substantial amounts in capital markets.

This situation started to change in the late 1970s and early 1980s (because it became desirable to raise the level of operations) and this implied the need to implement changes in the Bank's financial policies and to get bankers and investors to know what the African Development Bank is and what it's all about.

Once they do start paying attention what do they find especially interesting?
Once they realize that we work on the same lines as the World Bank and the Asian Development Bank and Inter-American Development Bank, and that we benefit from the same government guarantees, which is an aspect that is particularly important to bankers and bond investors, they quickly begin to show interest in doing business with us.

Then we can get into more detail and when we explain to them that, like other multilateral development banks, we have never incurred any losses, that we do not go in for debt reschedulings, and that we have a very low funded debt, they get even more intrigued. On this last point, our level of funded debt is very low relatively as well as absolutely. In fact we even have an advantage over these other multilateral development banks in this respect. We have only borrowed against about 10 percent of our callable capital. What this means is that all the outstanding debts of the African Development Bank are covered tenfold by the callable capital of our approximately 70 member countries. For the sake of argument it can be demonstrated that all this debt does not even exceed the guarantee level provided by only two or three of the most creditworthy countries in the world, such as the United States, the Federal Republic of Germany and Switzerland.

That is one aspect in which we are better off than most other institutions. We also benefit, because we are a relatively new institution from the viewpoint of non-regional countries, from a very high level of support from the governments of these countries—which is reflected in our very high level of paid-in capital, 25 percent. If you have followed recent discussions about the replenishment of paid-in capital at the other multilateral development banks, they talked of levels between zero and 7½ percent.

Is this realized by the foreign financial people with whom you speak? How widely known is this very high level of capital guarantees of the African Development Bank, and is its significance generally appreciated?
We have to distinguish between bankers and the investors who buy bonds in the market. The

MARK STANLEY REINSTEIN

Rolf M. Jeker: "We have never incurred any losses and we don't go in for debt reschedulings and we have a very low funded debt."

bankers we deal with already know, or they very quickly understand what this involves. For the rest, my experience shows that they are not well informed; they don't know that such guarantees exist.

But you are pretty well established in some markets?
We have already floated bonds in the German and Austrian markets, and we've done syndicated loans in Japan: in those three markets we are known, though I wouldn't say well known. In Germany we've had three issues, and our bonds have done quite well, so we're probably best known there.

We also have done syndicated loans and floating rate notes and we have a number of standby facilities—a concept devised by the finance people of this Bank to always have sufficient funds available if needed for disbursements, etc., without having to draw down the full amount immediately. This is something we've done in the past that is now recommended to other development banks, as a way of keeping liquidity at a reasonable level at low cost. As we move into the capital markets for long-term borrowing we will reduce drawing on these standby lines, because they are priced on a floating rate base and tend to be more expensive.

What are you doing to get the Bank better known to investors?

In the markets we enter, we put on "road shows." We send a team of high level staff, headed by our Vice President Finance, Babacar N'Diaye. The team will be assisted by the underwriters and by the Executive Directors representing the countries where borrowings take place.

You mentioned that one of the strongest marketing points for Af.D.B. bonds is the guarantee you provide investors in the form of limiting borrowing in relation to callable capital. Just how strong are you going to make this guarantee?

Limiting borrowing to callable capital is a statutory limitation, but in practice we will go much lower than this limit, in order to demonstrate our caution to investors. The level we go to is a question on which the Board will have to decide, taking into account market conditions. We have to work towards an optimum, the level at which you can convince investors.

From your experience of working with other MDBs, where do they set their limits?

At the Inter-American Development Bank, they limit borrowings to 80 percent of inter-regional capital. At the Asian Development Bank the limit is the callable capital in convertible currency: in theory they've limited themselves to 100 percent of that, but in practice they've held it down to 75 percent–they are now attempting to fully use the potential up to 100 percent.

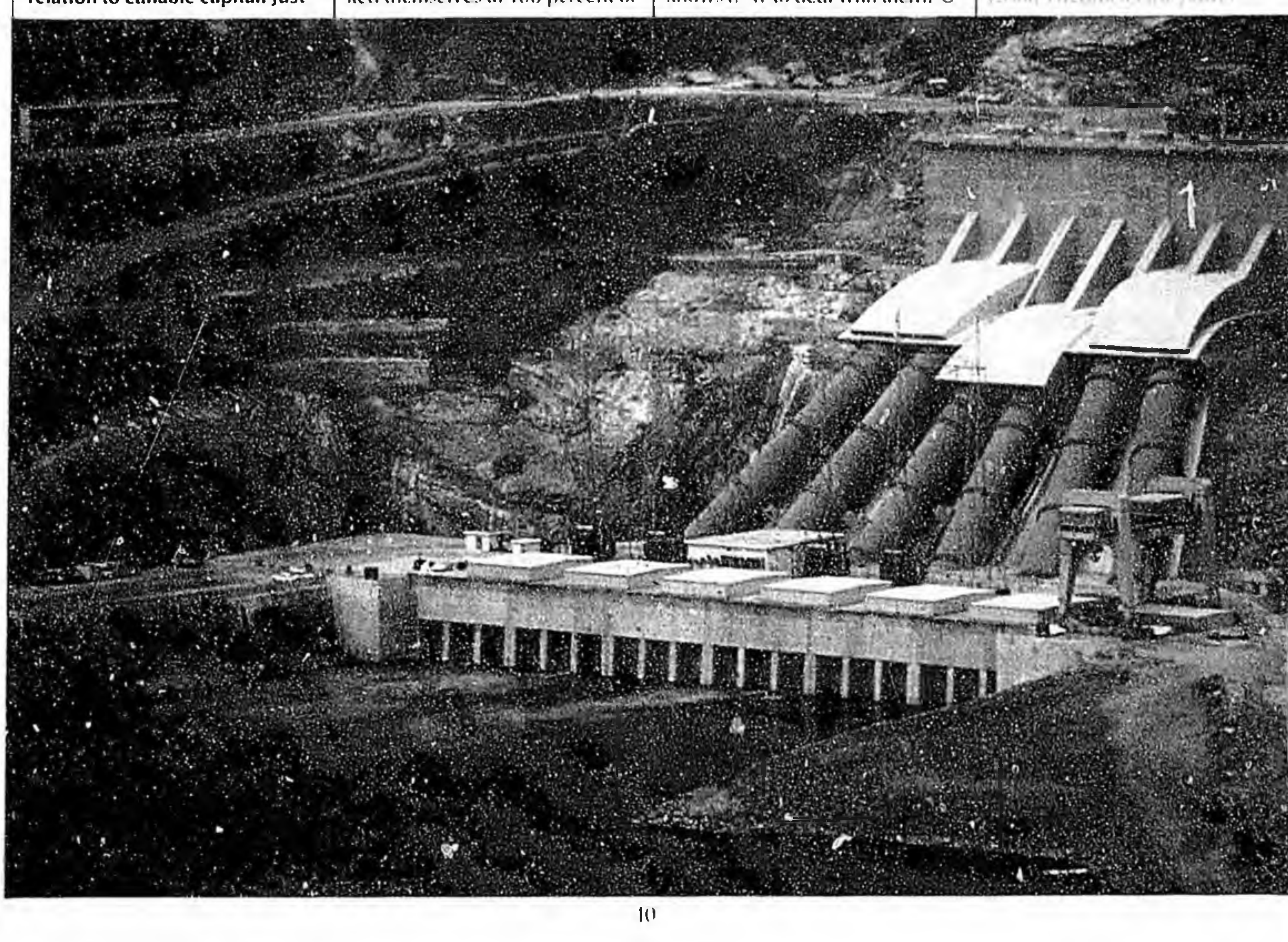
One question that some investors–and some politicians–raise about the staffing of multilateral development banks: does politics enter into the selection of staff here?

I think I can confidently say recruitment of staff is done on merit and qualifications.

As an outside director who has had the opportunity to know all the MDBs, can you say how the professionalism of the African Development Bank compares with that of the others?

I have dealt with all of them on a management level, and here I can say that we also have a competent management team that is aware of the problems and knows h w to deal with them. ◉

[illegible] believed to have the potential to generate 40 percent of the world's hydroelectric power



Helping a continent develop its resource and market potential

"Africa is the continent with a lot of resources waiting to be tapped," observes African Development Bank Vice President for Planning and External Relations Samuel Ogunleye—and investors are becoming increasingly aware of the Continent's promise. Irving Friedman sees this growing interest "in the amount of time I'm able to get from people" to talk about Africa and the Bank.

Europe has always been economically and physically close to Africa. France in particular maintains close ties with the Continent, and relies on Africa for a significant proportion of its external trade and resources. According to DG Bank's Uwe Flach, "European investors and entrepreneurs see greatest promise in projects involving metal processing, particularly aluminum based on the extensive resources of bauxite, [but also] in iron ore, copper, manganese and zinc ...and in the exploration and processing of uranium and crude oil."

The involvement, as Friedman notes, is spreading. Japanese investors, according to economists at the Long Term Credit Bank and Daiwa Securities, are very much aware of the minerals and other natural resources of Africa, and Japan has always been one of the strongest supporters of the African Development Bank. One Af.D.B. publication notes that "when 33 African countries met in Khartoum [in 1963] to sign the agreement establishing the African Development Bank, Japan was one of the few non-African countries which was represented at the conference and the signing ceremony."

Now, of course, some 20 non-African nations have committed capital to the Bank, and, as Friedman points out, the interest in Africa is not confined to the industrialized West. Brazil, India, Korea and Argentina are among those he mentions as increasingly keen to strengthen their relationships with Africa: for instance, the Banco Nacional de Desenvolvimento, the Brazilian development bank, recently signed a technical cooperation agreement with Af.D.B. for an exchange of technical experts.

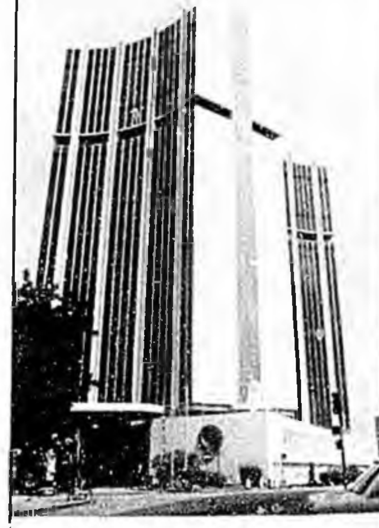
A WEALTH OF UNTAPPED RESOURCES

The foreign interest centers on two aspects of Africa: Africa as a resource base and Africa as a market. The continent is rich in both senses:

- "The potential for hydroelectric power is 40 percent of that of the world," says Vice President Donatien Bihute. Many of the enormous possibilities, he points out, "are still untapped." Zaire has the highest potential of all, according to David Twahirwa, head of Af.D.B.'s Statistical Division, followed by Uganda and Ethiopia. Then, it is a matter of "wherever the river Niger goes—Guinea, Mali, Niger, Nigeria." The Zambesi river also, has tremendous potential for hydropower, and Bihute mentions a major multinational dam in construction on the Senegal—the Manantali Dam, owned by Senegal, Mali and Mauretania, and partly financed by Af.D.B.
- Under the heading "At last, an alternative to the Mideast," *Business Week* devoted a 1981 cover story to West African oil prospects, and more recently it wrote of "a new tide [there] of offshore investment." It seems that the whole West African coast, from Guinea to Angola, may contain oil. Congo, Cameroon and Gabon are exporters, the Ivory Coast is very close to self-sufficiency, Nigeria is potentially one of the biggest producers in the world. "Since there is oil in the Ivory Coast and Nigeria, why not also in between?" asks Bihute with a smile. Twahirwa adds that Somalia, Ethiopia, Sudan, Egypt, Zambia, Mozambique and Namibia are among other African countries where the international oil companies are spending money—"and one must assume that they spend their money where they think there are good prospects." Executive Director Pierre Moussa notes that in his own country, Chad, "we've known about oil wells since 1968." Back in Paris, an economist at a top French bank suggests that oil potential may be the reason behind France's recent stepping up of its military presence in Chad.
- Some experts contend that an overwhelming preponderance of the world's strategic minerals reserves—Moussa mentions a figure of 72 percent—are to be found in Africa. Cobalt, chrome, manganese, uranium and vanadium are among the vital minerals for which, as the French economist observes, "there are virtually no other sources of surplus supply."

THE PROMISE OF A MAJOR MARKET

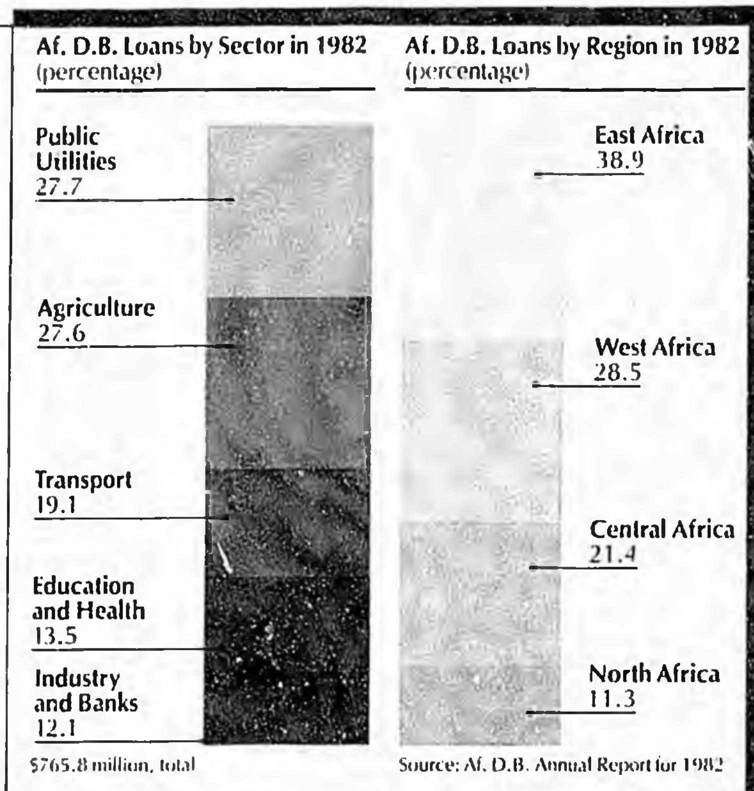
While energy and mineral production and processing represent the greatest potential for foreign investment, food production is Africa's greatest need. When that is met, Africa offers vast promise. "Africa above all constitutes a potential market," says Moussa, and a market which could provide a solution for the surplus

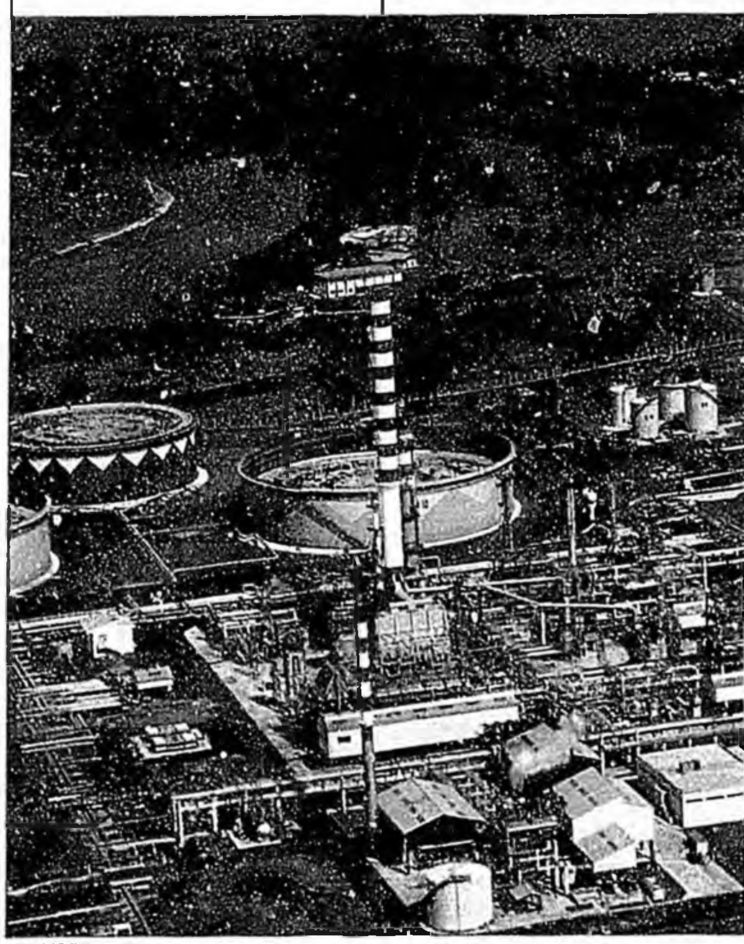


KOSSI KOKOU

[illegible] Development Bank [illegible] Ivory Coast, [illegible] continent.

WORLD BANK PHOTO





ROBERT ROYAL

industrial capacity problems of the West.

For Africa to realize its potential as a market, however, he and other Af.D.B. officials know that it is essential to build up its human capital, and that is why so much of the Bank's efforts are devoted to agriculture. This, they point out, is plain common sense. "I've had to visit hospitals which have been built with funds from the Bank, and 90 percent of the patients are there because they're suffering from malnutrition," says President Wila Mung 'Omba. "If they had had proper meals and a proper diet, the money spent on those hospitals could have gone to other sectors."

The Bank's economists also make the point that many African countries are capable of becoming breadbaskets for the others. "Zaire, Zimbabwe, Sudan, Mozambique and Angola should not only be self-sufficient in food, they should be exporters," says Twahirwa. Many of them can achieve this goal in the period of the Bank's current five-year plan, he maintains.

Twahirwa also advances some facts that suggest the capacity of the African market, once this primary need for food is satisfied. It is a widespread misconception, he says, that there is a vicious circle of poverty in every nation in Africa: "People say, 'These countries are all very poor, so they have no savings, so they can't invest, so they stay poor.' " This is simply not true, he contends: "Savings rates are surprisingly high, given the low level of per capita incomes." The figures are not totally reliable, he concedes, and the rates, as might be expected, vary widely from country to country—but generally not less than 15 percent.

With some foreign investment to galvanize this latent economic strength, Africa can fulfill its promise more rapidly than most people in the West are aware. The African Development Bank represents an important channel through which foreign investors can take a share in that realization. One New York banker who knows the institution well sums up the situation neatly: " [Investing in] Af.D.B. is a good way to establish a stake in this promising land." ®

Ivory Coast–a flourishing economy with exceptional promise

"The fact that we're located in Abidjan, Ivory Coast, is an important factor in the Bank's favor," says a senior official of Af.D.B. Location in Abidjan not only places Af.D.B. in a city with good hotels, good services and good communications, it associates the Bank with one of Africa's most promising economies. BERI (the authoritative Business Environment Risk Information service), which ranks the countries of the world for foreign investors by a series of yardsticks, puts the Ivory Coast in the same grouping as South Korea in terms of potential profit opportunity, and well below such countries as Italy in terms of political risk.

According to an economist at Af.D.B., the Ivory Coast owes its success primarily to the quality of leadership of President Houphouet-Boigny. The open economy and atmosphere created by the president "has attracted capital and expertise," says the economist. "It's a process that is self-perpetuating and self-accelerating."

Among the Ivory Coast's recent economic achievements:

• With production at 25,000 barrels a day, it is very near self-sufficiency in oil. According to one knowledgeable local observer, the country has the potential to produce its entire 30,000 barrels-a-day need. Still, with oil at present prices, it makes more sense to import the additional 5,000, and leave Ivory Coast reserves in the ground or seabed for the time when prices improve.

• Meanwhile production of electric power has shot up from 225 gigawatt hours (GWH) in 1966 to 1,844 GWH in 1981 (the latest year for which figures are available)–and 90 percent of it is produced from hydroelectric sources. In the development of some of these sources, loans from African Development Bank have played an important part: another Af.D.B. official notes that the Bank is to lend $40 million toward the construction of a new dam.

• Between 1975 and 1980, tarred road surfaces increased 60 percent, and Ivory Coast added another 386 kilometers in 1981.

• The country has become the largest coffee producer in Africa–and the third largest in the world.

Responsible programs for continued growth

With all these indications of solid progress, the Ivory Coast has also had its share of problems. The big oil price rises of the 1970s, which took place when the country needed to import much more than it does today, played a part in a sharp increase in prices. The recent world recession has cut deeply into exports of coffee and cocoa–which account for half the Ivory Coast's export earnings. And the weakness of the French franc has had a severe impact on the country's debt service costs, because its currency is tied to that of France.

Despite these difficulties, the economy is one of the healthiest on the Continent, says Michel Esnault-Pelterie, a Vice President of Bankers Trust who is the New York institution's Regional Representative in West and Central Africa. "They have taken measures which were extremely courageous" to cure their economic problems, he says, "such as canceling subsidies and cutting down spending considerably." While estimates of current inflation vary quite widely, there is general agreement that it is now under double digit–and well under control.

Two signs of outside interest and confidence in Abidjan are the upcoming opening of a new Hilton Hotel and of a new office building by the World Bank. And one sign of the country's own confidence in itself is up-country–at the new capital, Yamoussoukro, now under construction. Kidder, Peabody Vice Presidents Edward Waters and Melvin Rines, who visited the site in August, returned visibly impressed. For instance, Waters says the new engineering college being built there "will be as good as the finest engineering colleges in the world–including M.I.T."

"La Pyramide" in downtown Abidjan, Ivory Coast–soon to be joined by a new Hilton Hotel and World Bank building.

CYNTHIA JOHNSON/GAMMA-LIAISON

Careful planning to finance future growth: An interview with Babacar N'Diaye, Finance Vice President of the African Development Bank

"What have been the most significant changes in your borrowing strategies?

In the mid-1970s, when we first felt the need to borrow, the Bank had no access to the international bond markets, because the African countries, our sole member countries then, had no access. We could only tap the short-term markets and, because we were then not known at all to international bankers, we had to accept very high spreads—1 3/4 percent on our first syndicated loan in 1975.

So we had to work on improving our standing—sometimes we would borrow not so much because we needed the money as because we wanted to get ourselves better known in the markets—and on our most recent floating rate borrowing, the spread was down to 1/8 percent.

We also worked on extending our maturities. In 1978 we went to Floating Rate Notes as a bridge between Eurocredits and Eurobonds, and in 1979 we did our first Eurobond issue for 100 million deutschemarks. Since then we've done two more DM issues of bonds, and in April, 1983 we did a bond issue in Austrian schillings.

It's very important to note that this was the first borrowing we've done with the backing of non-regional as well as regional capital. In other words, all our earlier borrowings were made on the strength of the regional capital alone.

What are the most important differences now that you have allowed in non-regional members and greatly increased your equity both with their contributions and the larger contributions of the regionals?

We've changed our policies to reflect the facts that we have both greater equity and continuous access to the bond markets.

Which of these markets do you expect to tap over the next year or two?

At this stage, I would not make definite plans to tap one or another on a set schedule. I'd rather look at each market as and when the opportunities arise.

In the same way that you did the first bond issue in Kuwaiti dinars in 1977?

In the sense that we were getting our name known, yes. But in general, this will be a period in which we fix the name of the institution in the different markets, and we'd rather concentrate on the main long-term capital markets—the dollar, the yen, the deutschemark, the Swiss franc, and the Dutch guilder.

So you haven't any definite plans yet for your entry into the U.S.?

It is something we are contemplating, but there are a lot of preparations to be made.

Eventually, entry into the U.S. capital market is essential, not only to broaden our supply of funds, but for two other reasons: one is that the U.S. market gives a longer term than other markets; the second is that it gives us greater leverage in the other markets.

The Asian Development Bank considers that one of its great borrowing strengths is that it has the capital sufficiency not to need to take the maximum amount from any one market at any one time. Do you feel you have the same flexibility?

For the moment, that is the situation. It could change as we get very much bigger, but we have standby facilities which we can use any time we need instant liquidity. We would fall back on these facilities only if we were unable to arrange fixed term financing at what we regard as reasonable cost.

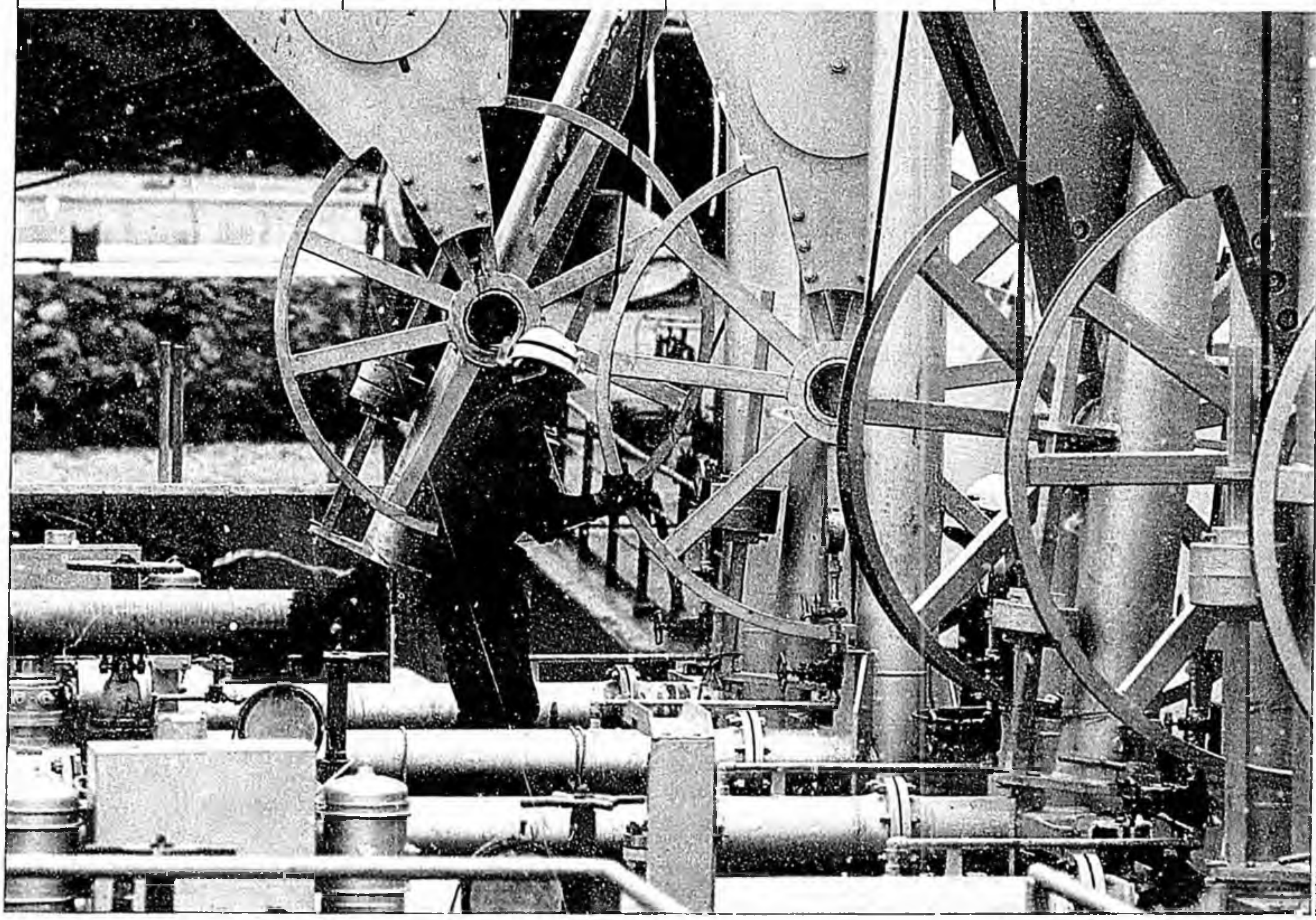
According to the Bank's Operational Program for 1982-1986, your borrowing needs over the next three years were likely to

MARK STANLEY REINSTEIN

be about $950 million. Is that still the case?
Disbursements run pretty much according to plan, so these numbers are still pretty good.
If the world economic recovery continues at least through a reasonably long business cycle, would that cause an increase in your borrowings?
Yes, the world recovery will have an effect on the development process of the Third World, and the acceleration of this development would require the injection of more funds into our borrowing member countries. But the process of change takes time, and it would not increase our borrowing requirements until after the 1982-1986 period.
Have any particular types of institutions been especially keen buyers of your bonds?
After the last issue, Girozentrale (the lead managers) made a good analysis of the buyers, and found that they were spread around among all types of institutions. A pleasant aspect of the issue was that it not only got a quick distribution, it also got a wide distribution. Demand was surprisingly strong.
On that subject of demand, how does the yield on your bonds compare with the yield on the bonds of other regional development banks?
Right before the U.S. and Japan subscribed, the differential between our yields and those of such banks as the Asian Development Bank and the Inter-American Development Bank was around 25 to 30 basis points.
I gather that represents a considerable narrowing—would you expect it to narrow any farther?
Now that all the non-regionals are in, my expectation is that the differentials will not only narrow but disappear altogether—at least in the markets where we have made a real penetration.

In markets that are new to us, of course, there will always be a spread, which I call the cost of introduction. But at one point recently we were trading in Germany just about on a par with As.D.B. The key point, in any case, is that the differentials are diminishing.
Going back for a moment to your borrowing in Kuwaiti

The African Development Bank offers an inviting channel for investment in major energy projects. Another view of the Sonara refinery in Cameroon.



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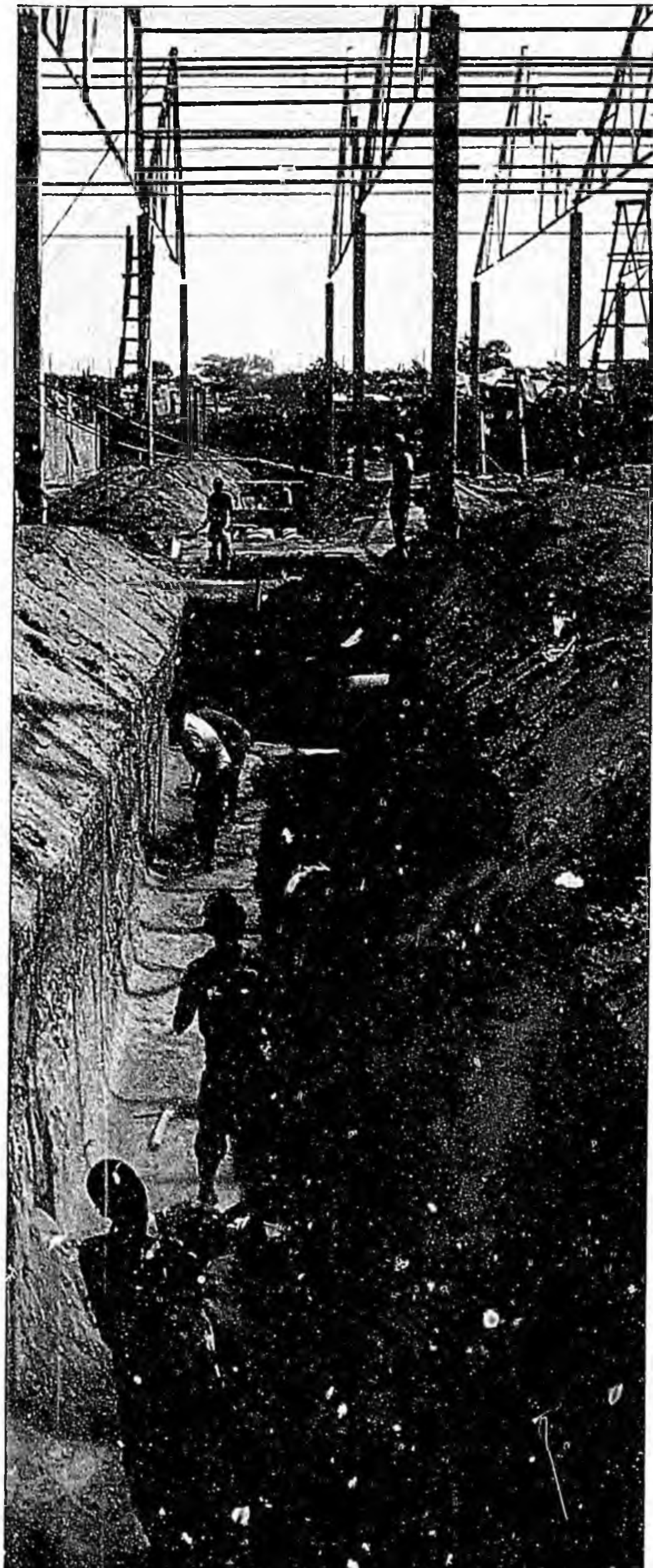


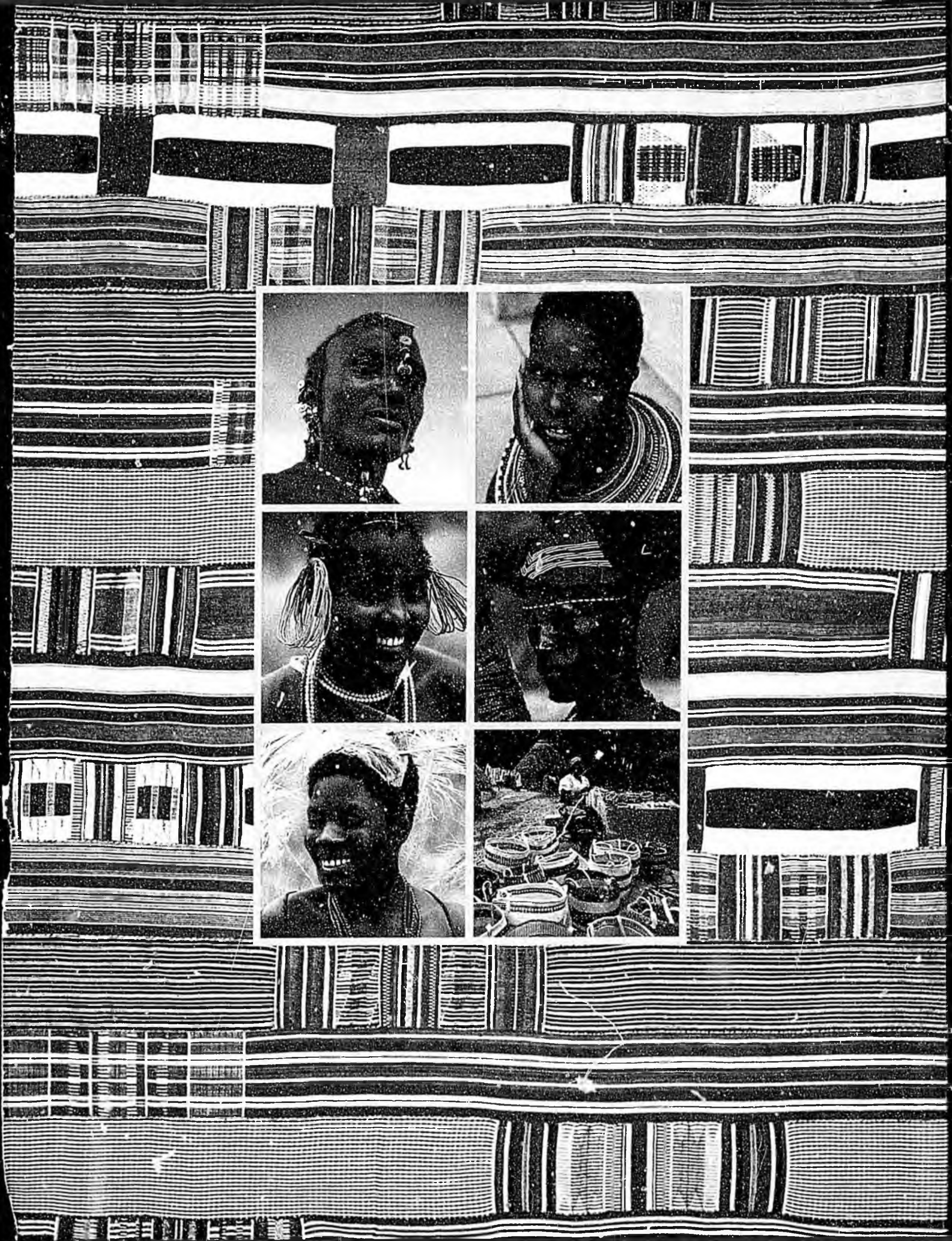
dinars, does the Bank as a representative of Third World borrowers get any especially favorable treatment from the Arab banks or Arab funds?
Not particularly. Arab banks that participate in our loans do so on a strictly commercial basis The Af.D.B. as such gets no special assistance from any funds. And we have never looked for any, because the African Development Bank has to act strictly as a banking institution, just like the other development banks.
By comparison with them, the one unfavorable comparison in your operating ratios would appear to be in your operating profit.
There's a certain logic to this. Until we decided to approach the capital markets, we never considered profit growth important. We kept our interest rates very low on the money we were lending, partly because our funding came from paid-in capital, and partly because, to build our asset portfolio, we needed to get ourselves well known as lenders by our member countries. To do this, we needed to make our loans especially attractive in terms of interest rates.
More recently, though, you are paying more attention to profitability? For instance, in 1982 you raised your lending rate to 9.5 percent.
Yes, it is now our policy to get a progressive growth in net income. In line with our Operational Program, we'll have nearly $300 million in reserves and surplus by the end of 1986.
Could you summarize what you see as the strongest features, from an investor's viewpoint, of your operating procedures and ratios?
It is most important that, if you analyze our liquidity against our disbursements, you can see that we have never made loans out of floating rate funds: all our loans have been made on the basis of our equity or of fixed-term borrowings.

Then of course, there is the structure of the balance sheet of the Bank, with 25 percent of the equity actually paid in, and the low ratio of indebtedness of both equity and total capitalization. These features have been analyzed in depth by independent outsiders, and I'd rather investors studied their conclusions than my own.
What are the features of the Bank, though, that you personally emphasize, when you talk to lenders and investors?
First that they should realize that this Bank operates as does any other well-run bank—that is, on normal sound banking principles.

Second, I underline the effectiveness of the support of our member countries, because the effectiveness of their support underlines there commitment.

This is reflected in their responses to the Bank's increases in capital, which prove their determination to back the institution (in the most concrete manner) through the subscriptions of the African countries alone—our capital was originally $250 million, and by 1982 we had raised it to more than $3 billion. ◉

TEXTILE: AMERICAN MUSEUM OF NATURAL HISTORY CENTER PHOTOGRAPHS, LEFT TO RIGHT FROM TOP: TOBY MERCER/FPG; DAVE BARTRUFF/FPG; DAVE BARTRUFF/FPG; DAVE BARTRUFF/FPG; J. ZIMMERMAN/FPG; DAVE BARTRUFF/FPG; DAVE BARTRUFF/FPG



AFRICAN DEVELOPMENT BANK

Conservative, successful, poised for expansion

S.B./H.B. ___________

Offered ____(Date)________

By Senator/Representative ____________________

A Bill to amend Alaska Statutes §§06.05.270(a)(9) and 21.21, providing for certain investments in obligations of the African Development Bank.

BE IT ENACTED BY THE ALASKA LEGISLATURE THAT THE ALASKA STATUTES BE AMENDED AS FOLLOWS:

Section 1: Alaska Statutes §06.05.270(a)(9) is amended as follows:

> "(9) obligations of the International Bank for Reconstruction or the Interamerican Development Bank or the African Development Bank subject to the limitation of (b) of this section."

Section 2: Alaska Statutes §21.21 is amended to add new section 340, as follows:

> "**Sec. 21.21.340 African Development Bank.** An insurer may invest in obligations issued, assumed or guaranteed by the African Development Bank."

Section 3: This legislation shall take effect immediately upon passage.

Arent, Fox, Kintner, Plotkin & Kahn

Washington Square

1050 Connecticut Avenue, N.W.

Washington, D.C. 20036-5339

Writer's Direct Dial Number

202-857-6434

January 17, 1984

Mr. Willis F. Kirkpatrick
Director
State of Alaska
Department of Commerce and Economic Development
Pouch D
Juneau, Alaska 99811

Re: Legislative Qualification of African Development Bank Securities for Investment by Alaska State-Regulated Institutional Investors

Dear Mr. Kirkpatrick:

I am writing in response to your letter of September 16, 1983 to Secretary of the Treasury Regan concerning the African Development Bank.

Our firm has been retained by the African Development Bank ("the Bank") to represent it in its efforts to obtain legislation in Alaska which would permit various state-regulated institutional investors to purchase the securities of the Bank. I would like to ask your support and assistance in helping to introduce and pass appropriate legislation to help the African Development Bank qualify its securities in Alaska. The needed bill would simply give the African Development Bank the same opportunity to sell securities in Alaska that the other international development banks already enjoy.

BACKGROUND

The United States recently became a member of the African Development Bank, a regional international financial institution established in 1964. The Bank's current membership consists of nearly all countries in Africa (with the exception of South Africa), together with nonregional member governments, largely from Europe, Japan and Canada.

As was the case for the International Bank for Reconstruction and Development (the World Bank), the Inter-American Development Bank, and the Asian Development Bank, legislation will be required to authorize institutional investors in Alaska and other states to invest in securities issued by the African Development Bank. Such legislation has already been passed in New York and Illinois.

The Bank makes loans at near-market rates to member countries. These loans in the main support agricultural development and basic infrastructure projects in the recipient African countries.

In 1981 Congress enacted and President Reagan signed into law a bill (Public Law 97-35) authorizing United States participation in the Bank. Approximately $360 million has been appropriated for the initial U.S. stock subscription. Twenty-five percent ($89.93 million) of the U.S. subscription would be paid in and seventy-five percent ($269.8 million) would be callable.

The African Development Bank plays perhaps the leading role in fostering economic cooperation in Sub-Saharan Africa, an area of increasing economic significance for the United States. This cooperative effort among Black African countries serves as the only pan-African institution still in existence. U.S. participation in the Bank will be of critical importance in our attempts to enhance and consolidate our relationships with the nations of this region.

As with other multilateral development banks, the African Development Bank raises its lending resources primarily on the international capital markets. The issuance and marketing of securities in the United States is governed by both federal and state law. As noted above the federal government has already acted to permit federally-chartered financial institutions to invest in the securities of the Bank. We must now seek appropriate legislation at the state level.

<u>PROPOSED LEGISLATIVE CHANGES</u>

With respect to Alaska, I outline below for your review those laws which govern the investment authority of state investors. The needed legislative changes are not complicated and in general require only the addition of the name "African Development Bank" to existing statutes. All references and citations are to Alaska Statutes (A.S.).

I. Commercial Banks

State commercial banks will need specific authority to invest in African Development Bank securites. Alaska Statutes § 06.05.270.(a)(9) will have to be amended to add the African Development Bank to the list of approved international development bank obligations which now includes those of the International Bank for Reconstruction and Development and Inter-American Development Bank.

II. Insurance Companies

Domestic insurers will require specific authorization to invest in African Development Bank securities. The following amendment will be necessary to A.S. § 21.21:

> Sec. 21.21. . African Development Bank. An insurer may invest in obligations issued, assumed or guaranteed by the African Development Bank.

(Investment in the obligations of the International Bank for Reconstruction and Development and the Inter-American Development Bank are authorized at A.S. §§ 21.21.120 and 21.21.130, respectively.)

A.S. § 21.21.25 authorizes investments "not otherwise expressly permitted," provided they qualify as "sound" investments and meet other conditions.

As the above outline indicates, only two provisions of existing Alaska law will need to be amended in order to qualify fully the securities of the African Development Bank. Similar legislation has already been adopted in New York and Illinois and has been proposed in a number of other states.

I would appreciate the opportunity to discuss this legislative proposal further with you or your staff. My colleague, George Lehner, and I would be happy to review with you in detail any questions you may have with regard to this matter. Mr. Lehner can be reached at 202-857-6232.

Enclosed for your review is a copy of the White House press statement issued on February 8, 1983 marking the occasion of the formal acceptance of the U.S. in the African Development Bank and a reprint from "Institutional Investor" on the Bank.

Sincerely yours,

Arnold H. Weiss

Arnold H. Weiss

Enclosures

THE SECRETARY OF THE TREASURY
WASHINGTON

August 12, 1983

Dear Governor Sheffield:

I am writing you in support of the African Development Bank's efforts to obtain the qualification of its obligations in the State of Alaska for investment by certain institutions.

The African Development Bank was established as a multilateral development bank in 1963 to foster economic and social development of its African members individually and through regional cooperation. In addition to fifty African countries, the Bank's membership now includes the United States and 16 other non-regional countries (primarily the countries of Western Europe and Japan). The African Development Bank is patterned after the International Bank for Reconstruction and Development (the World Bank) and the Inter-American Development Bank. Like them and the Asian Development Bank, the African Development Bank has been making extensive use of capital markets throughout the world to obtain resources for its development lending activities.

I would appreciate your state taking the necessary steps to have the African Development Bank receive at least as favorable treatment under the laws of Alaska as is currently accorded to one or more of the other multilateral development banks with respect to the qualification of its securities for purchase by certain institutions in your state (see the enclosed excerpts from Alaska's statutes). New York and Illinois have already acted to accord such treatment to the African Development Bank. I anticipate that the Bank, through its legal counsel, will be in touch with you to present detailed proposals.

Sincerely,

Donald T. Regan

Donald T. Regan

The Honorable
Bill Sheffield
Governor of Alaska
Juneau, Alaska 99811

Enclosures

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES, SMALL LOANS & CORPORATIONS

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2521

March 5, 1984

Mr. Arnold H. Weiss
Arent, Fox, Kintner, Plotkin
and Kahn
1050 Connecticut Ave., N.W.
Washington, D.C. 20036-5339

Dear Mr. Weiss:

Re: African Development Bank

Please excuse the somewhat tardy answering of your letter of January 17, 1984. I have reviewed your letter and the enclosures with interest. The suitability of the bank's securities as an investment appears to be sound. I would, therefore, pose no objection to the State's financial institutions being able to purchase them.

Our present statutes, however, do not allow for investment in the African Development Bank. It will, therefore, be necessary to introduce the appropriate legislation to enable them to specifically invest in securities offered. It will be necessary for you to introduce the legislation in our Legislature. We shall be glad to testify in favor of such legislation.

I hope I have answered all your questions. If I may be of further assistance, please feel free to call on me at any time.

Sincerely,

Willis F. Kirkpatrick
Director

WFK/mstl/5
030584a

83-14996

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES, SMALL LOANS & CORPORATIONS

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2521

September 16, 1983

Mr. Donald T. Regan
Secretary of the Treasury
Department of Treasury
15th Street & Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Regan:

Re: African Development Bank

Your letter has been passed on to me for an answer. Please excuse the delay in answering regarding the subject dated August 12, 1983. Some amount of research was, however, in order. We do not, at the present time, have a firm policy regarding the subject. We have the matter under investigation and advisement. We will probably not finalize until we hear from the bank's legal counsel.

If I may be of further assistance, please feel free to call on me at any time.

Sincerely,

Willis F. Kirkpatrick
Director

WFK/cw#25611
91683A

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 8, 1983

United States Joins African Development Bank

FACT SHEET

President Reagan today signed the necessary documentation accepting United States membership in the African Development Bank.

In 1972, non-regional countries joined Bank members in establishing the African Development Fund to provide concessional financing to the poorest African countries. In 1979, the Governors of the Bank extended the offer of membership to the United States and other non-regional countries.

In 1981, Congress authorized both U.S. membership in the African Development Bank and a U.S. subscription of $359.7 million of Bank capital. Also in 1981, the first installment ($17.99 million of paid-in capital and $53.96 million of callable capital) was enacted by the Congress. Four additional installments with identical amounts for paid-in and callable capital subscriptions will be sought in the FY 1984-1987 period.

United States membership in the African Development Bank reflects this country's growing economic and security interests in this important region, and our desire to cooperate in a constructive multilateral effort to help the countries of Africa overcome their very serious development problems.

Background on the African Development Bank

The African Development Bank, with headquarters in Abidjan in the Ivory Coast, was established in 1963, by 30 African countries to make loans on near-market terms to promote economic and social development in member countries individually and through regional cooperation. Under the terms of the original Articles of Agreement, membership was restricted to independent African countries. There are currently 50 African member countries. In 1972, Bank members joined with non-regional countries to establish the African Development Fund to provide financing on concessional terms to the poorest African countries. The United States became a member of the Fund in 1976.

The Bank finances its loan operations primarily from the paid-in capital subscriptions of member countries and funds raised through borrowings or guarantees in international capital markets. Lending operations totaled $1,663 million as of year-end 1981, with lending concentrated in public utilities (32 percent), industry and development banks (25 percent), transport (24 percent) and agriculture (17 percent).

Although Bank resources have increased significantly, the absence of industrial countries severely limited the Bank's access to world capital markets. In May 1979, the Governors of the African Development Bank agreed, subject to the necessary ratification by member governments, to invite non-African countries to join the Bank. Twenty-one non-regional countries subsequently agreed to subscribe a total [illegible] Bank, 25 percent in paid-in capital and 75 percent in callable capital. The United States share of the non-regional subscription is 17.04 percent, i.e., $89.93 million in paid-in capital and $269.80 million in callable capital.

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 8, 1983

EXECUTIVE ORDER

AFRICAN DEVELOPMENT BANK

By the authority vested in me as President by the Constitution and statutes of the United States of America, including Section 1 of the International Organizations Immunities Act (22 U.S.C. 288), Reorganization Plan No. 4 of 1965, and the African Development Bank Act (22 U.S.C. 290i), and in order to facilitate United States participation in the African Development Bank, it is hereby ordered as follows:

Section 1. The African Development Bank, in which the United States participates pursuant to Sections 1332-1342 of Public Law 97-35 and the Agreement Establishing the African Development Bank, is hereby designated as a public international organization entitled to enjoy the privileges, exemptions, and immunities conferred by the International Organizations Immunities Act. This designation is not intended to abridge in any respect the privileges and immunities which such organization has acquired or may acquire by treaty or Congressional action. This designation shall not affect in any way the applicability of Section 1 of Article 52 of the Agreement, Article 57 of such Agreement or the Declaration made by the United States pursuant to Article 64 of the Agreement.

Sec. 2. Executive Order No. 11269, as amended, is further amended by deleting "and African Development Fund" and adding ", African Development Fund, and African Development Bank" in Sections 2(c), 3(d) and 7, respectively.

Sec 3. The functions vested in the President by Sections 1333(c), 1334, 1338(a) and 1341(b) of Public Law 97-35 (22 U.S.C. 290i-1(c), 290i-2, 290i-6(a), and 290i-9(b)) are delegated to the Secretary of the Treasury.

RONALD REAGAN

THE WHITE HOUSE,
February 8, 1983.

# # # # #

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 8, 1983

TEXT OF A LETTER FROM THE
PRESIDENT TO THE PRESIDENT OF THE
AFRICAN DEVELOPMENT BANK

February 8, 1983

Dear Mr. President:

On behalf of the United States of America, it gives me great pleasure to accept membership in the African Development Bank in accordance with Board of Governors resolutions 05-79, 06-79, and 07-79.

In accepting membership, I also wish to inform you of the following:

1. The United States of America has completed all steps necessary in accordance with its laws and is prepared to fulfill all the obligations of membership under the Agreement Establishing the Bank.

2. On January 31, 1983, a duly authorized representative of the United States of America signed the Agreement Establishing the Bank and deposited our instrument of acceptance with the United Nations.

3. The United States of America hereby subscribes to 1,491 shares of the paid-up capital stock of the African Development Bank ("Bank"), and 4,473 shares of the callable capital stock of the Bank (inasmuch as pertinent budgetary appropriations have already been obtained); and subscribes, subject to obtaining budgetary appropriations, to an additional 5,964 shares of the paid-up capital stock of the Bank and an additional 17,892 shares of the callable capital stock of the Bank in accordance with the provisions of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank.

4. I have nominated Donald T. Regan, Secretary of the Treasury, to be Governor of the Bank and W. Allen Wallis, Under Secretary of State for Economic Affairs, to be Alternate Governor of the Bank. The Senate is now in the process of confirming those nominations. We will notify you when they have been confirmed.

5. Pursuant to Article 40 of the Agreement Establishing the African Development Bank, the United States of America designates the Department of the Treasury for purposes of communication with the Bank on matters connected with the Agreement.

more

(OVER)

and the Federal Reserve Bank of New York as the depository in which the Bank may keep its holdings of the currency of the United States of America or other assets.

6. The United States of America has fulfilled all the legal requirements necessary to make the subscription to the capital stock and to assure that the currency received by the Bank thereunder shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

Sincerely,

RONALD REAGAN

Mr. Wila Mung'Omba
President
African Development Bank
Abidjan, Ivory Coast

* * * * *

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 8, 1983

REMARKS OF THE PRESIDENT
IN CEREMONY MARKING U.S. MEMBERSHIP
IN AFRICAN DEVELOPMENT BANK

The State Dining Room

1:51 P.M. EST

THE PRESIDENT: Your Excellencies, President Mung'Omba, Secretary Regan and members of the Congress and distinguished guests, one of the great pleasures of this office is that I often have a chance to do something unabashedly positive in nature. And I'm pleased to say that what we're about to do offers such an opportunity.

Today we mark the new American partnership, as I'm sure Secretary Regan has told you, with the people of Africa through our acceptance of membership in the African Development Bank.

We take the step purposefully and by it we underscore our commitment to African growth.

The United States has always taken a farsighted view to assist the growth of developing nations. At the Cancun Summit in October of '81, the United States laid out a broad-based program of trade, investment and aid to meet the diverse needs of the developing countries. Last year, we put this approach into practice in our Caribbean Basin Initiative for the developing countries of the Caribbean and Central America. And with this step today, the United States reaches out to its developing nation partners in Africa.

The United States and the African Development Bank are not new friends by any means. Since '68, the United States has provided technical assistance to the bank through the Agency of International Development. And since '76, we've channeled part of our development assistance to Africa through the bank's affiliates -- or affiliates, I should say, of the African Development Fund.

And now, by opening its membership to the non-African countries, the African Development Bank has given us the opportunity for even closer cooperation. I'm happy to say we accept the invitation and stand ready to do our share.

We're painfully aware that Africa's economic development is encountering difficult obstacles. As the leader in the cause of the progress, the African Development Bank group along with other assistance organizations must strive for more effective use of the limited development funds.

The African governments who carry the heaviest responsibility for their own domestic economy -- or economic conditions

MORE

must pursue a sound, growth-oriented policy if progress is to be made. Far too often, the governments of developing countries undermine their own private sector -- one of the essentials for commercial and industrial expansion -- only to see the standards of living decline in the countries that do that.

If the leaders of Africa's nations recognize the critical role of private enterprise, they can then expect to share in much more of the worldwide economic upturn that we think is now beginning in this country. Americans recognize both the special development needs and the great potential of Africa. The African Development Bank Group symbolizes the determination of Africa and the International Community to meet those needs and to achieve that potential.

We, in the United States, are enthusiastic about this partnership as I am sure the Secretary has told you. And we look forward to seeing tangible results from this cooperative and very special effort.

And now, I am going to sign a letter to the President of the Bank, and I am going to sign our Action Paper.

(The documents are signed. Applause.)

There, that makes it absolutely official. (Applause.)

PRESIDENT MUNG'OMBA: Mr. President of the United States, Mr. Secretary of the Treasury, and the Governor of the African Development Bank, distinguished Senators and Congressmen, Your Excellencies, ladies and gentlemen, on behalf of the Board of Governors and the Board of Directors of the African Development Bank and on my own behalf, permit me to acknowledge with sincere gratitude the singular honor you have done the Bank and ourselves today in deciding to mark the signing of the formal instruments of accession of the United States to membership of the African Development Bank with this special ceremony.

Mr. President, the ceremony we have just witnessed is significant in many respects. But I think it is most obviously significant in that it marks the clearest commitment of the government and the people of this great country to the development objectives and aspirations of the African peoples as collectively expressed in their institutions that form the African Development Bank Group.

Mr. President, we have long had clear and consistent proof of the sincerity and sympathy of the United States toward these institutions. Your country's assistance both in the formal funds and technical assistance to the Bank has been a reliable and invaluable supplement to the Bank's own efforts for nearly as long as the Bank has been in existence. And this notwithstanding that, for reasons that are now happily historical, the United States could not at that time be a member of the African Development Bank.

The same history of great care and concern is even more amply evident in the clear leadership position that the

MORE

United States unreservedly accepted, in terms of both direct contributions and indirect assistance, when it became possible for this country to become a state participant in the African Development Fund a few years after its creation. Sir, today it marks a further confirmation of the commitment of your people, your government, and we recognize it as an explicit assurance that it is a long-term commitment.

And because it's long-term in nature, it further underscores the concern of the people of this country for the plight of the people of Africa, which is the chief duty of the institutions of the Bank group to help mitigate.

On behalf of the governing bodies of the Bank, it is my singular honor and pleasant duty to welcome the United States of America to membership of the Bank. You will, Mr. President, have, no doubt, have been informed at least in outline of the long period of internal debate which preceded the decision of our governors to admit non-African countries to membership of the Bank. In the end, what persuaded them was the consideration that non-African membership could create an opportunity on the continental level and, under their own leadership, for a more extensive dialogue and partnership between the two sides in combatting Africa's endemic development problems.

Mr. President, it is this opportunity which we in the Bank, with the assistance of countries like yours, have the responsibility to translate into reality. And I am convinced that we will succeed in this endeavor. There can be no doubt that with the material and technical resources that will be made available to the Bank as the result of this day's work, its effectiveness in manning this frontier and pushing it back is significantly enhanced.

Mr. President, your decision to have present at this ceremony such a distinguished and broadly representative selection of the members of the executive, the legislature and the business and banking organs of the nation signifies clearly to all of us how essential is the participation of all these sectors of the nation before this great adventure in international cooperation can become a true success.

Allow me, sir, to address a word of gratitude to the many concerned friends of Africa in the Senate and Congress whose consistent support for this program over all these years has today brought our efforts to fruition.

Equally, sir, a word of thanks is due to these tasks of both of the executive and the legislative who sought tirelessly and patiently assisted us at all stages of our preparations.

Mr. President, I would on this happy occasion go further and take this wonderful opportunity, on behalf of my colleagues, myself, the African Development Bank, personally to wish you a belated Happy Birthday and sincere good wishes for health, success and God's blessings in your future endeavors.

Sir, on behalf of the Boards of Governors and Directors of the Bank group, accept our most sincere welcome to the African Development Bank and our thanks to you and to the people of your great country. (Applause.)

END 2:05 P.M. EST

OFFICE OF THE PRESIDENT

MEMBER

TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE
SIXTEENTH ALASKA LEGISLATURE

SENATOR TIM KELLY

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7612

February 28, 1990

MEMORANDUM

To: Representative Donley, Chair
House Labor & Commerce Committee

From: Senator Tim Kelly TDK

Re: Scheduling SB 353, relating to investments in development banks.

I would appreciate a hearing on SB 353 at your earliest convenience. I introduced the bill in response to interest expressed in the Anchorage community. As you can read from the attached support information, it appears to have not only a laudible purpose but provides a valuable investment opportunity to Alaskan institutions.

Current law restricts insurers to only those investment opportunities of the Inter-American Development Bank. This bill would expand the the authorization to invest in obligations of the African Development Bank and the Asian Development Bank.

Henry Lancaster is a good resource person to contact for more information on the merits of SB 353. He can be reached at 278-4729.

Thank you for your attention to this request.

POSITION PAPER

Department of Commerce
& Economic Development

SB 353: "An Act relating to insurer investments in development banks."

SB 353 adds the African and Asian Development Banks to the eligible list of development banks into which investments can be placed. Provisions regarding solvency and nondefault status are also added.

The provisions in this bill are identical to the language contained on page 30, Section 30 of SB 212, an Act relating to insurer solvency, introduced last session by the Governor. SB 212 is in the Senate Labor and Commerce Committee.

The department supports this legislation. The additional provisions regarding solvency and nondefault status give the department the opportunity to make sure these banks are good investments before they are used by insurers.

Larry Merculieff, Commissioner

Date: 1/9/90

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MEMORANDUM

AFRICAN DEVELOPMENT BANK STATE
LEGISLATIVE PROGRAM - ALASKA

I. Background

The African Development Bank ("the Bank") is currently seeking the enactment of legislation, where necessary, which would permit state-regulated banks, insurance companies, fiduciaries and public employee retirement systems to invest in Bank obligations if they choose to do so. Several years ago, largely through the joint efforts of the Congressional Black Caucus and the Reagan Administration, Congress enacted Title XIII of P.L. 97-35 authorizing United States membership and financial participation in the Bank, which was initially created in 1964 and until 1982 limited its membership to African countries. Today, the Bank's membership includes all African nations except for South Africa, plus the Governments of the United States, Canada, Japan and Western Europe.

The Bank, a principal source of financing for economic development projects on the African continent, funds these projects through the sale of its obligations in the world's capital markets. As with the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank and the Asian Development Bank, investments in African Development Bank securities by the state-regulated institutions described above generally require either state legislation or administrative agency rulings prior to the time such securities can be marketed in a particular state. P.L. 97-35 referred to above authorized federally regulated financial institutions to invest in such securities.

Since initiating state legislation activities several years ago, the Bank has obtained passage of legislation or secured comparable administrative agency public rules to qualify its securities for investment in forty-two states.1/

1/ These include Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Texas, Virginia, Washington, West Virginia and Wisconsin. In addition, Alaska state-chartered banks obtained such investment authorization through legislation enacted in the 1988 session.

Bills are also pending in several additional states, while others have either issued private administrative rulings or have laws which already permit such investments under a "prudent investor" standard. It should be noted that each state has its own particular laws applicable to state-regulated institutional investors and no two states are alike in this regard.

The Bank entered the United States capital market for the first time in the Fall of 1985 and most recently in early November 1987 with highly successful bond issues. The three principal American bond rating services have given its bonds AAA, AAA and AA ratings, which makes this type of investment quite attractive once a regulated investor receives appropriate legal authorization. In order to assure a successful United States market presence, the Bank is seeking enactment of legislation in a number of additional states, including Alaska, to obtain this authorization.

II. Specific Legislation Needs in Alaska

A review of the applicable Alaska laws indicates a need for amending only one section of the Alaska Statutes to gain investment authorization for state-regulated insurance companies. This involves merely adding the name of the African Development Bank to those of the World and already eligible for such investments. Alaska state banks recently gained this investment authorization in similar legislation, while other regulated investors apparently already have the necessary authority without the need for statutory change.

Based upon experience to date in other states, this legislation should be completely noncontroversial. President Reagan and the U.S. Treasury Department have actively supported efforts to get this legislation enacted, as have many Black political leaders around the country. Because of the high Bank securities ratings, prospective investors also support it since this increases their high-yield, low-risk portfolio options and provides them an opportunity to make both profitable and socially worthwhile investments. Finally, since the Bank is the major source of foreign exchange financing for transactions in or with Africa, American exporters and technical assistance providers to that continent have ample incentive to support the Bank's financial success.

Prepared November 1988 by:

David Aronofsky, Esq.
U.S. Legal Counsel, African Development Bank
Arent, Fox, Kintner, Plotkin & Kahn
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339
202-857-6054

THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 12 1988

Dear Governor Cowper:

I am writing in support of the African Development Bank's efforts to obtain the qualification of its obligations in the State of Alaska for investment by certain state-regulated institutions.

The African Development Bank was established as a multilateral development bank in 1963 to foster economic and social development of its African members individually and through regional cooperation. In addition to all independent African countries except for South Africa, the Bank's membership now includes the United States, as well as the countries of Western Europe, Japan and other developed nations. The African Development Bank is patterned after the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank and the Asian Development Bank, in that they all make extensive use of the world's capital markets through the sale of their highly rated bonds and other obligations to obtain funds for development lending activities. A substantial percentage of such funds finances the purchase of American goods and services used in critical development projects. This in turn enables American businesses and academic institutions to participate directly in these activities, to the benefit of all concerned.

I would appreciate your State taking the necessary steps to have the African Development Bank receive at least as favorable treatment under the laws of Alaska as is currently accorded to one or more of the other multilateral development banks with respect to the qualification of the Bank's securities for purchase by state chartered banks, savings and loan associations, insurance companies, public employee retirement systems and any special statutory or constitutional funds. At least 34 states have already wholly or partially accorded such treatment to the African Development Bank through enactment of legislation or, where appropriate, administrative agency rulings. I anticipate that the Bank will be in touch with you through its American legal counsel to present detailed legislative proposals.

Sincerely,

James A Baker III

James A. Baker, III

The Honorable Steve Cowper
Governor, State of Alaska
Juneau, AK 99811-0101

cc: The Honorable Jan Faiks
The Honorable Ben Grussendorf

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low rates. Others disagree.

"I think tax policy in 1989 is going to be a back-burner issue," said Donald H. Straszheim, chief economist for Merrill Lynch & Company, even though "the budget and trade deficits are troubling to economists."

"We're likely to end up with higher taxes down the road, but not immediately," he said. Some form of energy tax is likely, he suggests, and eventually a value-added tax could be imposed. If income tax rates are raised, then preferential treatment for capital gains is "not unreasonable," he said. But with a new Administration and a new Congress due to take office, he does not expect the tax rates to be changed in 1989.

Mr. Straszheim sees a modest recession and lower interest rates for the second half of 1989. If that forecast is accurate, it would argue against making tax-driven sales of bonds now, because bond prices would rise if rates fell. One strategy, though, would be to sell bonds on which one has a loss and replace them with similar securities.

• • •

Vern Martens, vice president of Merrill Lynch Tax Advisory, noted that if there is no change in tax rates next year, "taxpayers will pay lower taxes because of indexing for inflation." Nevertheless, he said, "people are still looking for something that will provide a tax break."

The most popular tax-exempt investments are municipal bonds, although certain municipal bonds are subject to the alternative minimum tax. These latter bonds pay slightly higher rates and thus are attractive to investors who are not liable for the alternative minimum tax.

Mr. Martens offered these additional possibilities for reducing taxes:

¶Rehabilitation credits for low-income housing can cut taxes by up to $7,000.

¶Tax-deferred annuities can be attractive for retirement plans.

¶By switching from money market funds to certificates of deposit or Treasury bills or notes, investors can defer income into future years. A switch in October, however, will only reduce 1988 interest income by 25 percent.

...idis' Challenge to OPEC

From First Business Page

...els a day, from around 4.3 ...arrels a day a month ago. ...icials said their current ...vas to keep their production ...protect their share of the ...arket against other pro... ...at are discounting their oil ...asing production to secure ...les.

...industry officials said that ...posal would substantially ...overall OPEC ceiling, bring... ...ser to 19 million barrels a ...million barrels above the ...

manently lower oil prices.

One industry expert said the tentative proposal depended upon a compromise between Iraq and Iran under which the countries would agree to equal production shares of 2.5 million barrels a day each. Iraq is now producing about 2.7 million barrels a day, while Iran's output is just below 3 million barrels a day.

Under the new proposal, OPEC would also agree to lower the official price it has used as a yardstick, to closer to $15 a barrel, from $18.

But OPEC officials and oil analysts fear that until an agreement is reached, a further steep drop in oil prices is a real possibility, bringing ...

Third World Projects Create a New Market

The development banks are bringing about a boom for many products.

By CLYDE H. FARNSWORTH

Special to The New York Times

WASHINGTON, Oct. 9 — Although the market for exports to cash-strapped developing countries has fallen strikingly in the past decade, third-world projects financed by the international development banks have created a booming market for an array of products.

Under their crushing debt burden, developing countries, which normally buy about a third of all American exports, cut purchases from the United States by 13 percent since 1981, to $82.7 billion in 1987.

But in the same period, American companies doubled, to $2.1 billion a year, their sales of items needed for projects financed by the four leading development banks — the World Bank, the Inter-American Development Bank, the African Development Bank and the Asian Development Bank.

The market created by the development banks includes power generators, water pumps, trucks, tractors, drilling rigs, irrigation equipment, farm implements, telecommunications equipment, pesticides, seeds and schoolbooks.

In the past five years, the World Bank and the three regional institutions have disbursed $7... ...ion to business contractors, ch... ...e industrial countries, to sup... ...ects in more than 100 devel... ...g countries, according to a recent report by Development Bank Associates Inc., a research group based in Washington.

Chances are that future disbursements will be even greater, following recent Congressional action authorizing American participation in a $75 billion increase in the resources of the World Bank, nearly doubling its capital. A large increase in funds for the Inter-American Development Bank is likely to be approved in the next few months as well.

"The development banks have created an enormous market," said David A. Raymond, director of international programs for the Enserch Corporation of Dallas, a diversified energy operator which aggressively pursues World Bank contracts. "It isn't an easy business and there's more competition than ever. But it pays hard currency on projects throughout the world."

Despite the numbers, analysts here note that American bidders like Enserch are still relatively few.

"Many business executives do not know about the bidding process," the United States Chamber of Commerce said in a special study of the market published two years ago. "Others fear red tape."

Development Bank Associates said in a recent report, "A Practical Guide to the Development Bank Business," that less than 3 percent of United States exporters are ac... ...engaged in marketing products for such projects.

The lack ... interest has hit the pocketbook. Even as the United States has strikingly increased exports to the development-bank market, it has been losing market share to its principal commercial rivals — West Germany and Japan.

By far the biggest of the development institutions, the World Bank committed $17.7 in 1987 to expand power distribution in Argentina, build irrigation works in Belize, expand technical education in Brazil and to aid scores of other programs. Commitments by the three regional institutions totaled $7 billion, bringing the total for the four to $24.7 billion.

The commitments become actual disbursements as the multiyear projects reach varying stages of completion needing additional equipment and supplies.

Most of the contracts are relatively small — in the range of $10,000 to $50,000. In a recent year, 65 percent of all equipment contracts and 55 percent of all consultancy contracts on World Bank projects were for less than $50,000, according to the Development Bank Associates study.

Over the same period there were 2,000 payments by the World Bank of more than $1 million.

The development-bank business is confined to developing countries, which includes nearly all countries with per-capita yearly income of less than $3,000. These include such giants as China and India and such tiny island states as Kiribati and Vanatu. The market also includes some East bloc countries like Hungary and Poland.

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January 29, 1990

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Senator Dick Eliason, Chair
Labor & Commerce Committee
Alaska State Senate
P.O. Box V
Juneau, Alaska 99811

Dear Senator Eliason:

I am writing to thank you for allowing me to testify via teleconference in the January 24, 1990 Senate Labor & Commerce Committee meeting.

Senator Faiks raised a question during the meeting that deserves further clarification. She asked whether the World Bank should be included in SB 353. My review of the Alaska Statutes has revealed that AS 21.21.120 already allows an insurer to invest in the obligations of International Bank for Reconstruction and Development (IBRD). The IBRD is more commonly known as the "World Bank." Thus the concern for inclusion that Senator Faiks expressed is already addressed in Alaska law.

Please do not hesitate to contact me if you have any other questions or concerns.

Sincerely,

Henry M. Lancaster

Henry M. Lancaster II
President

HML:bgm

cc: Sen. Tim Kelly
Sen. Jan Faiks
Sen. Pat Rodey
Sen. Jalmar Kertula
Sen. Jack Coghill

SB353

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March 20, 1990

VIA FEDERAL EXPRESS

Honorable Dave Donley, Chairman
Committee on Labor and Commerce
Alaska House of Representatives
Juneau, Alaska 99811

Re: Alaska Senate Bill 353

Dear Representative Donley:

As U.S. counsel for the Asian Development Bank, I am writing to urge your support for Senate Bill 353, "An Act relating to insurer investments in development banks." Passage of this legislation will enable Alaskan insurers to invest in obligations of the African Development Bank and the Asian Development Bank.

Both the African Development Bank and the Asian Development Bank are international financial institutions organized as corporations whose shareholders are member countries. The Asian Development Bank's membership is composed primarily of Asian and Pacific countries (including both the People's Republic of China and the Republic of China), but also includes the United States and certain Western European countries. The Banks' purposes are to promote economic growth in the regions that they serve by making loans to finance agricultural and industrial projects within the territories of their developing members.

The proposed legislation would conform the laws of Alaska to give obligations of the African Development Bank and the Asian Development Bank the same status as obligations of the World Bank and the Inter-American

Development Bank, both of which have long been included in the insurance company investment statute. Banks, savings and loan associations, pension funds and other categories of institutional investors in Alaska already have the right to acquire obligations of all four Banks.

Both the African Development Bank and the Asian Development Bank play a crucial role in raising money in the bond markets to lend for vitally needed social and economic projects in the developing countries of Africa, Asia and the Pacific. Your support of the proposed legislation will confirm the recognition of the state of Alaska of the importance of the role of the developing banks in promoting social and economic progress of people in the developing nations of Asia and Africa.

If you need further information on the Asian Development Bank, please contact me at (202)727-2746 or Brenda Taylor at (202)727-2824. On behalf of the Asian Development Bank, I thank you and the members of the Committee for your support and assistance.

Sincerely yours,

J. Eugene Marans