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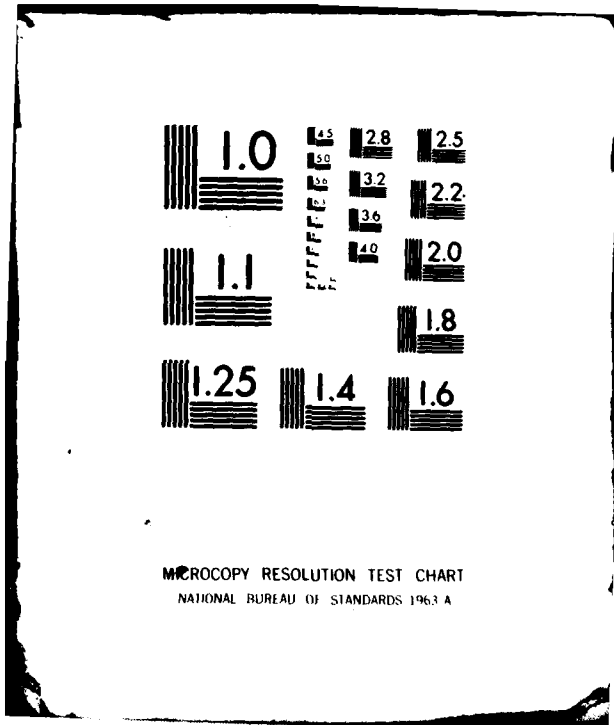
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DEPARTMENT OF STATE

CONFERENCE ON THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES - ECOWAS

WASHINGTON D.C. - JUNE 9 TO 14, 1980

"SCOPE, PURPOSE AND OPERATION OF THE ECOWAS FUND"

By Robert C. Tubman, Managing Director

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The ECOWAS Fund is pleased to have the chance to participate in this Conference. We want to thank the Department of State for this kind invitation.

I have been asked to speak on the "Scope, Purpose and Operation of ECOWAS Fund". As a starting point it will be helpful to refer to the full name of the Fund since the name is suggestive of the institution's wide range of activities. The name of the Fund is the ECOWAS Fund for Cooperation, Compensation and Development.

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The Economic Community of West African States (ECOWAS), comprising Benin, Cape Verde, Gambia, Ghana, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo and Upper Volta was established in 1975. The Treaty of Lagos which brought into existence the Community provides in Article 50 for the establishment of the ECOWAS Fund. There are four Protocols which are annexed to the Treaty which define in greater detail the scope and functions of the Community institutions. The

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fourth of these Protocols deals extensively and exclusively with the Fund. Article 2 of this fourth Protocol outlines the purposes of the Fund[†] which is a summary of what the Fund has been founded to achieve. The objectives of the Fund under this fourth Protocol are to:

- (a) provide compensation and other forms of assistance to Member States which have suffered losses as a result of the application of the provisions of this Treaty;
- (b) provide compensation to Member States which have suffered losses as a result of the location of Community enterprises;
- (c) provide grants for financing national or community research and development activities;
- (d) grant loans for feasibility studies and development projects in Member States;
- (e) guarantee foreign investments made in Member States in respect of enterprises established in pursuance of the provision of the Treaty on the harmonization of industrial policies;
- (f) provide means to facilitate the sustained mobilization of internal and external financial resources for the Member States and the Community; AND
- (g) promote development projects in the less developed Member States of the Community.

As you can see, these are ambitious and challenging objectives which will obviously require determined courage, understanding and

a continuing political will and effort to materialize. Indeed, the successful accomplishment of the objectives of the ECOWAS Fund is an essential factor in the whole equation of the economic integration of West Africa which is the main purpose of ECOWAS. In accordance with the aims of the Community as set out in Article 2 of the Treaty, ECOWAS is envisaged to evolve into a full-fledged Common Market involving the free flow of labour and capital.

This brings me to the other part of the subject matter of this paper namely the operation of the ECOWAS Fund. Such an excursion calls for an examination of the procedures and institutional framework through which the Fund attempts to accomplish its goals. Again, we refer to the organic document establishing the Fund, namely the Fourth Protocol of the Treaty. Article 10 of this Protocol provides for the "methods of operation" to be as follows:-

1. Subject to the conditions set forth in this Protocol, and for the purposes of the Fund, the Fund may provide guarantees in respect of foreign investment, provide finances for and facilitate the financing of projects of Member States of the Community or promote development in the less developed Member States of the Community in any of the following ways to any agency, entity or enterprise which is subject to majority participation and control by nationals including government

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or Governments or inter-governmentally owned enterprises or corporations of Member States:-

- a) by making or participating in direct subventions and loans with its unimpaired paid-up capital, and except in the case of its Special Reserve as defined in Article 17 of this Protocol, with its reserves or undistributed surplus or with the unimpaired Special Facilities other than those designated for use in granting compensation to Member States in accordance with paragraph 2 of this Article;
 - b) by making or participating in direct loans with funds raised by the Fund in capital markets or borrowed or otherwise acquired by the Fund for inclusion in its ordinary resources;
 - c) by the investment of funds referred to in sub-paragraphs (a) and (b) of this Article in equity capital of an institution or enterprise; or
 - d) by guaranteeing in whole or in part, loans or foreign investments made in Member States in respect of enterprises established in pursuance of the provision of this Treaty on the harmonization of Industrial Policies.
2. The Special Facilities designated for that purpose shall be used to provide compensation and other forms of assistance to Member States which have suffered losses as described in paragraphs (a) and (b) of Article 52 of the Treaty, in such manner and to such extent as the Council may decide. It should be noted that Article 2 of the Fourth Protocol cited earlier is identical with Article 52 of the Treaty.

The operational activities of the Fund are further elaborated in Article 13 of the Fourth Protocol, which are as follows:-

Operating Principles: Apart from the compensation or other form of assistance to a Member State as may be determined by the Council, or where it may be inappropriate to do so, the other operations of the Fund shall be conducted in accordance with the following principles:-

- a) the Fund shall be guided by sound banking principles in its operations and shall not make loans or undertake any responsibility for the discharge or re-financing of earlier commitments by borrowers;
- b) in selecting projects, the Fund shall always be guided by the need to pursue the objectives set forth in Article 2 of this Protocol;
- c) subject to Article 2 of this Protocol, the Fund shall ensure that it shall so conduct its operations so as not to impede the balanced economic development of all Member States;
- d) the operations of the Fund shall provide principally for the financing directly of specific projects within the Member States but may include loans to or guarantees of loans made to the national development agencies of the Member States so long as such loans or guarantees are in respect of and used for specific projects which are agreed to by the Fund ;
- e) the Fund shall seek to maintain a reasonable diversification of its investments;

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- f) the Fund shall seek to resolve its funds by selling its investments in equity capital to other investors wherever it can appropriately do so on satisfactory terms;
- g) the Fund shall not finance any undertaking in the territory of a Member State if that Member State objects to such financing;
- h) before a loan is granted or guaranteed or an investment made, the applicant shall have submitted an adequate proposal to the Fund, and the Managing Director shall have presented to the Board of Directors a written report regarding the proposal, together with his recommendations;
- i) in considering an application for a loan or guarantee, the Fund shall pay due regard to the ability of the borrower to obtain finance or facilities elsewhere on terms and conditions that the Fund considers reasonable for the recipient, taking into account all pertinent factors;
- j) in making or guaranteeing a loan, the Fund shall pay due regard to the prospects that the borrower and its guarantor, if any, will be able to meet their obligations under the loan contract;
- k) in making or guaranteeing a loan, the rate of interest, other charges and the schedule for repayment of principal shall be such as are, in the opinion of the Fund, appropriate for the loan concerned;
- l) in guaranteeing a loan made by other investor, the Fund shall charge a suitable fee or commission for its risk;

- m) in the case of a direct loan made by the Fund, the borrower shall be permitted by the Fund to draw the loan funds only to meet payments in connection with the project as they fall due;
- n) the Fund shall take all necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Fund, are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency;
- o) the Fund shall ensure that every loan contract entered into by it shall enable the Fund to exercise all necessary powers of entry, inspection and supervision of operations in connection with the project and shall further enable the Fund to require the borrower to provide information and to allow inspection of its books and records during such time as any part of the loan remains outstanding.

The foregoing Protocol provisions necessarily lead to the following conclusions about the Fund:-

- i) It can serve as a loan guarantor.
- ii) It can engage in equity participation.
- iii) It may enter into partnership financing.
- iv) It can provide credit.
- v) It can participate in international money and capital markets.
- vi) It is a Financial Development Agency of the ECOWAS system.
- vii) Finally, while it is expected to operate on the basis of

established economic criteria, exception can sometimes be made in fulfillment of the requirement that special attention should be given to the less developed areas of the Community.

With the objectives and the methods and principles of operations defined for the Fund, one would at this juncture expect that this assembly may now wish to know how the ECOWAS Fund has been structurally organized in order to accomplish these targets which the Founding Fathers of ECOWAS have set for it. A brief examination of the Fund's organizational structure is therefore considered necessary because of the inseparability of the objectives and functioning of the Fund and the personnel who are involved in their execution.

At the apex of the hierarchical pyramid is the Board of Directors which, in accordance with Articles 24 and 25 of the Fourth Protocol, is established to oversee, direct and regulate the operations of the Fund.

The Board consists of two representatives each of the Member States, one of whom being a member of the Council of Ministers of the Community while his alternate director is expected to be a "person possessing high competence and wide experience in economic, financial and banking affairs". In essence, the Board is the deliberative body of the Fund, approving its annual and operational budgets, making decisions of general

policy subject to confirmation by the Council of Ministers, and giving approval to the administrative policy proposals submitted by the Managing Director. The Board of Directors meet two-three times a year and elects its chairman annually from within its membership. The current chairman of the Board is the Minister of Finance of the Ivory Coast.

While the Board of Directors lays down matters of general policy, the day-to-day administration of the affairs of the Fund is carried out by the Managing Director of the Fund who is its Chief Executive Officer. The Managing Director convenes the meetings of the Board after consultation with the Executive Secretary and Chairman. He does not vote at such meetings. He is appointed by the Council of Ministers for a term of four years which may be renewed only once.

The Managing Director is assisted by a Deputy Managing Director and other officials in the performance of his duties.

At present, the Fund is divided, for administrative purposes, into four departments, namely, the Office of the Managing Director; the Departments of Administration; Finance; Studies and Project Analysis; and Operations. Each of the three last-mentioned departments is headed by a Director who is assisted by a team of professionals and other support staff recruited from the Member States.

It is hoped that before long the office of the Secretary to the Fund and that of the General Counsel would be constituted into full-fledged departments.

There is also an internal audit unit which is administratively responsible to the Managing Director of the Fund but operationally accountable to the Financial Controller of the Community who is attached to the Secretariat in Lagos.

Together with the Managing Director and his Deputy, the Fund now employs a total of 55 staff members of all categories drawn from eleven Member States.

Mention should also be made of the role of the Executive Secretary of the Community who is the Community's Chief Executive Officer. Article 8 of the Treaty requires him to coordinate the activities of the different institutions of the Community for onward transmission to the Council of Ministers and thence to the Authority of the Heads of State and Government of the Community. Accordingly, the Executive Secretary has an ex-officio right to attend the meetings of the Board of Directors and to be consulted by the Managing Director especially on matters of crucial significance.

In short, therefore, let us recall that the Fund is in effect intended to be the financial sinew of the whole sub-regional economic edifice in West Africa which has come to be christened

ECOWAS. In the context of ECOWAS, the Fund is expected to function as a specialized agency in what are the complementary areas of cooperation, compensation and development. -//-

While its capital and budgetary funds are to be initially derived from the contributions of Member States of ECOWAS, it is envisaged that the Fund will ultimately be able to go into the international money and capital markets as a creditable entity in the international financial community. It is then that the Fund can raise on these markets the various instruments of short and long-term credit facilities for the execution of its commitments. In commercial terms, it will then be functioning as a self-liquidating going concern.

The authorized capital of the Fund is US\$ 500 million. Of this amount, 50 million is the paid in capital. To date, over 90% of the paid in capital has been subscribed to by Member States on a formula which takes into account per capita and population of Member States.

The paid in capital are presently held in banks in the Community and Europe awaiting the implementation of community projects. The first project approved by the Authority of ECOWAS is the telecommunication project to link all the capital cities of West Africa. The identification and feasibility studies of projects are conducted by the Secretariat who then transmit them to the Fund for financing when they

have been approved by the Authority. In the process of identifying projects, the Fund participates and works in close cooperation with the Secretariat.

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Let us sum up this paper by emphasizing that the goals set for the ECOWAS Fund are diverse and unique. In financial terms, it defies a clear-cut classification; it is simply a hybrid financial institution. It is a development agency; it is engaged in investment banking; it can operate without the profit motive as the over-riding criterion for the acceptance of financing. We may conclude by saying that the success or failure of the ECOWAS Fund will be determined largely by equating its accomplishments against those tasks which have been set down for it to execute.