

**The Mediator  
East African Community**

**Consolidated Report of the Mediator**

**Proposals for  
the Permanent and Equitable Division  
of the Assets and Liabilities of the  
Corporations and the General Fund Services  
of the East African Community**

**Appendices  
A – G**

October 1981

## EAST AFRICAN COMMUNITY MEDIATION

### Contents

### Appendices

Mediator's Terms of Reference	"A"
List of Mediator's Experts, Consultants and Advisors	"B"
Foreign Exchange Rates at 30 June 1977	"C"
Balance Sheets of the Community Institutions	"D"
East African Railways Corporation	"E"
East African Posts and Telecommunications Corporation	"F"
East African Harbours Corporation	"G"
East African Airways Corporation	"H"
East African External Telecommunications Company Limited	"I"
East African Cargo Handling Services Limited	"J"
General Fund Services	"K"
Principal Weaknesses in Accounting Records	"L"
Principal Areas where Figures in the Mediation Proposals are Estimated	"M"
Assets to be transferred from Kenya to Uganda	"N"
Long term loan liabilities by creditors-countries and -organisations	"O"
Proposed division of long term loan liabilities among the Partner States	
Alternative A: No part of compensation payable to Uganda is settled by re-allocation of loans	"P"
Alternative B: Part of compensation payable to Uganda is settled by re-allocation of IBRD loans	"Q"
Assessment of Pension Fund Liabilities and their Division among the Partner States	"R"
Proposed division of Pension Fund Investments	"S"
Alternative methods of calculating excess/(shortfall)	"T"

## LIST OF ABBREVIATIONS

The following abbreviations are used throughout this Report.

Air Tanzania	- Air Tanzania Corporation
CIDA	- Canadian International Development Agency
EA Aeradio	- International Aeradio (East Africa) Limited
EA Airways	- East African Airways Corporation
EAC	- East African Community
EA Cargo Handling	- East African Cargo Handling Services Limited
EADB	- East African Development Bank
EA Extelcoms	- East African External Telecommunications Company Limited
EA Harbours	- East African Harbours Corporation
EA P&T	- East African Posts & Telecommunications Corporation
EA Railways	- East African Railways Corporation
GAD	- United Kingdom Government Actuary's Department
GFS	- General Fund Services
IBRD	- International Bank for Reconstruction & Development
IMF	- International Monetary Fund
Kenya	- Republic of Kenya
Kenya Airways	- Kenya Airways Corporation
Kenya Cargo Handling	- Kenya Cargo Handling Services Limited
PA	- Kenya Ports Authority
Kenya Railways	- Kenya Railways Corporation
MA	- Mediator's Auditing Board
ODA	- United Kingdom Overseas Development Administration
Simbair	- Simbair Limited
Tanzania	- United Republic of Tanzania
	- Tanzania Harbours Authority
Treaty	- Treaty for East African Co-operation, 1967
Tanzania Railways	- Tanzania Railways Corporation

LIST OF ABBREVIATIONS (continued)

Uganda	-	Republic of Uganda
Uganda Airlines	-	Uganda Airlines Corporation
Uganda Railways	-	Uganda Railways Corporation
UNDP	-	United Nations Development Programme
WG1	-	Working Group 1 of the Mediator's Auditing Team
WG2	-	Working Group 2 of the Mediator's Auditing Team

A

EAST AFRICAN COMMUNITY

MEDIATOR

Terms of Reference

Preamble

WHEREAS the United Republic of Tanzania, the Republic of Uganda and the Republic of Kenya having had and enjoyed close commercial, industrial and other ties for many years;

AND WHEREAS this co-operation was continued by the East African (High Commission) Orders in Council 1947 to 1961;

AND WHEREAS the East African High Commission was succeeded by the East African Common Services Organization Agreements 1961 to 1966;

AND WHEREAS the East African Common Services Organization Agreements were replaced by the Treaty for East African Co-operation which was signed at Kampala on 6th June 1967 by the three Presidents representing the three States as sovereign and equal partners;

AND WHEREAS the Community and all its institutions has for all practical purposes ceased to perform its functions and consequently the General Fund Services, including those services as set out in Annex IX of the said Treaty, can no longer be rendered;

NOW THEREFORE the United Republic of Tanzania, the Republic of Uganda and the Republic of Kenya do hereby appoint a Mediator to do the following:

General

1. The Mediator will recommend to the Partner States proposals for the permanent and equitable division of the assets and liabilities of EAC Corporations and the General Fund Services (GFS). Thereafter the Mediator would assist the Partner States in reaching a definitive settlement on the basis of these recommendations. In addition he is to make recommendations as to the future structure and operations of the East African Development Bank.

Scope of Work - EAC Corporations and General Fund Services

2. A. General

1. The EAC Corporations shall include those listed in the Annex to these Terms of Reference.
2. The General Fund Services shall include those listed in the Annex to these Terms of Reference.

B. Methodology

1. The Mediator shall determine the assets and the liabilities and examine various alternative methods of assessing them (including the date or dates as of which they are to be assessed) and of assigning them.
2. After due consideration and consultations with the Partner States the Mediator will recommend that method for assessing and assigning the assets which is in his opinion the most equitable. Following agreement between the Partner States the Mediator would then complete a detailed assignment of the assets and assist the Partner States in reaching a definitive settlement on the basis of this assignment. With regard to the liabilities and the joint contingent obligations of the Partner States, the Mediator will recommend, after due consideration and consultations with the Partner States, that method for allocating them to the Partner States which is in his opinion the most equitable and, following agreement between the Partner States, assist them in reaching a definitive settlement.

Scope of Work - East African Development Bank (EADB)

3. The Charter of the East African Development Bank should be reviewed taking into account the individual expectations of member Governments as a basis for their continued support of EADB and recommendations made regarding its future structure and operations. Particular attention should be given to Article 1 covering Objectives of the Bank and Article 13 covering Operating Principles. Where appropriate, alternative courses of action should be indicated and reasons supporting the one preferred. In formulating alternative courses, consideration should also be given to the effect of such recommendations on EADB's ability to mobilise resources.

. The acceptance of the Partner States of these Terms of Reference shall not be taken to mean that the EADB is to cease operations pending the outcome of the Mediator's efforts.

Rights of Creditors and Debtors

5. In formulating his recommendations the Mediator shall pay due regard to the legal rights of creditors and the existing contractual obligations of the Corporations and the GFS institutions with respect to their creditors and debtors.

Time Schedule and Reports

6. It is expected that the Mediator will complete his report within one year of commencement with a view to securing final agreement between the Partner States within three months from the submission of his Report. However, notwithstanding the foregoing, the Mediator may, at his option, submit recommendations on one or more of the institutions under his review before the end of this period. Specifically it is anticipated that the Mediator will be able to submit recommendations and secure final agreement between the Partner States with respect to EADB within five months of commencement. The Mediator will submit quarterly reports to the Partner States summarizing his activities.

Data, Local Services and Facilities to be Provided by the Governments, Access to Creditors and Debtors, Confidentiality

7. Each Partner State shall provide the Mediator, or cause the Mediator to be provided, with all data, reports and studies available in its Territory as may be necessary in his opinion for the proper execution of his Terms of Reference. Copies of such data, reports and studies will be furnished to the other Partner States by the Mediator upon their reasonable request. In this connection each Partner State will appoint an officer to facilitate the Mediator's work within the officer's Partner State and to ensure ready access to all data. An officer designated by each Partner State may act as an observer, but not a participant, at such formal fact-finding meetings as the Mediator may convene.
8. The Mediator is authorized to obtain any and all information he may require under these Terms of Reference from creditors and debtors of the Corporations and GFS institutions which normally would be available to the Partner States, the Corporations and GFS institutions.
9. All information received by the Mediator, except to the extent made available to the Partner States pursuant hereto, shall be treated as confidential and not published.

Each Partner State shall assist the Mediator in its respective territory in obtaining office facilities together with such secretarial, communications and transport services as he may from time to time reasonably request.



Use of Consultants

11. The Mediator may, in consultation with the Partner States, retain Consultants to assist him in carrying out these Terms of Reference. In this respect he is empowered to enter into contracts under reasonable terms and conditions.

2nd December 1977

Annex to Terms of Reference

1. The East African Community Corporations include:
  - (a) East African Railways Corporation (EARC);
  - (b) East African Posts and Telecommunications Corporation (EAP&TC);
  - (c) East African Harbours Corporation (EAHC);
  - (d) East African Airways Corporation (Airways);
  - (e) Wholly-owned subsidiaries of the above corporations, namely:
    - (i) East African External Telecommunications Company Limited (Extelcoms);
    - (ii) East African Cargo Handling Services Limited (EACHS); and
    - (iii) Simbair limited.
  
2. The General Fund Services include:
  - (a) All services financed by or through the General Fund of the Community and shall extend to all assets and liabilities of the Community in its capacity as a body corporate, including:
    - (i) The secretariat of the Community, including services relating to the Common Market and the Chambers of the Counsel to the Community;
    - (ii) The East African Directorate of Civil Aviation;
    - (iii) The East African Meteorological Department;
    - (iv) The East African Customs and Excise Department;
    - (v) The East African Literature Bureau;
    - (vi) The Auditor-General's Department;
    - (vii) The East African Community Service Commission;
    - (viii) The East African Legislative Assembly;

- (ix) The Inter-University Committee for East Africa;
  - (x) The East African Agriculture and Forestry Research Organization;
  - (xi) The East African Freshwater Fisheries Research Organization;
  - (xii) The East African Marine Fisheries Research Organization
  - (xiii) The East African Trypanosomiasis Research Organization;
  - (xiv) The East African Veterinary Research Organization;
  - (xv) The East African Leprosy Research Centre;
  - (xvi) The East African Institute of Malaria and Vector-Borne Diseases;
  - (xvii) The East African Virus Research Organization;
  - (xviii) The East African Institute for Medical Research;
  - (xix) The East African Industrial Research Organization;
  - (xx) The East African Tropical Pesticides Research Institute;
  - (xxi) The East African Tuberculosis Investigation Centre;
  - (xxii) The East African Flying School, Soroti;
  - (xxiii) The East African Court of Appeal;
  - (xxiv) The East African Staff College; and
- (b) All bodies corporate established by EAC legislation financed by Special Funds of the Community, such as:
- (i) East African Community Management Institute;
  - (ii) East African Pesticides Control Organizations; and
  - (iii) East African Examinations Council.

**B**

EAST AFRICAN COMMUNITY MEDIATION

List of the Mediator's Experts, Consultants and Advisors\*

<u>Mediator's Auditing Board:</u>	<u>Function</u>
Consisting of representatives of:	Advice on accounting, engineering and financial matters requiring professional experience and skills.
(i) Keuzenkamp & Co., Netherlands	
(ii) Universal Engineering Co., Switzerland	
(iii) Fides Treuhandgesellschaft, Switzerland	
(iv) Coopers & Lybrand, United Kingdom	
 J H C Laman - Holland	Member
G. Schillinger - Switzerland	Member
G Schultz - Switzerland	Member
Lord Chorley - United Kingdom	Advisor

P. S. Adams, United Kingdom, acted as Secretary to the Board.

Working Group 1:-

(i) Coopers & Lybrand, United Kingdom	Ascertainment of the assets and liabilities of:-
(ii) Fides Treuhandgesellschaft, Switzerland	
 Lord Chorley	(EA Railways
J C Truscott	(EA Harbours
P S Adams	(EA Airways
S L Holmes	(EA Cargo Handling
P Merz	(EA Aeradio
D.A Stirling and assistants	

Working Group 2:

(i) Keuzenkamp & Co., Holland	Ascertainment of the assets and liabilities of:-
(ii) Pannell, Bellhouse, Mwangi & Co., Kenya and United Kingdom	
 J Keuzenkamp	(EA P & T
D. Hutchison	(EA Extelcoms
J Francies	(GFS
J H. Laman, Jr	
G.K. Savile and assistants	

\*List excludes consultants for EADB.

Technical Experts:

Sir Bruce White, Wolfe Barry  
& Partners United Kingdom

J Tapp  
R S Cook  
R Kennedy  
P Schumacher  
G Britt

Function

Valuation of all the  
fixed assets of:-

(EA Railways  
(EA Harbours  
(EA Cargo Handling

and of civil works of:-  
EA Airways, EA Aeradio,  
EA P & T and EA Extelcoms

Universal Engineering Co, Switzerland

G Schillinger

Technical advisor to  
Mediator

M Suter

Project leader during fact-  
gathering exercise, and  
valuation of civil works  
and other fixed assets of  
GFS

S T Laczko

Study of the condition of  
EA Railways' permanent way  
and earthworks

Radio Suisse, Switzerland

M F Hofer

Chief Engineer

U Stingelin  
(Radio Suisse S A)

Valuation of fixed assets  
(other than land and  
buildings) of:-

EA Extelcoms  
Meteorological Department  
of GFS  
Department of Civil  
Aviation

G Stalder  
(Swiss P T & T)

Valuation of EA P & T  
transmission equipment

R Schaffer  
(Swiss P T & T)

Valuation of EA P & T  
switching equipment

Technical Experts (continued)Function

Overseas Development Administration,  
United Kingdom

E C Burr  
J W Willby  
P McLean  
R Ainsworth

Advice on pensions and  
financial matters

V J Kennard

Pensions

American Airlines

EA Airways

Balair Ltd, Switzerland

Capt K Herzog

EA Airways

Boeing Ltd (USA)

EA Airways

British Aerospace, United Kingdom

EA Airways

Crown Agents, United Kingdom

H Dale  
A L Batchelor  
P D Curtis

Advice on claims,  
suppliers' questions, and  
financial matters

Eastern Airlines (USA)

Capt R W Rivenbark

EA Airways

H P Gauff KG, Nurnberg, Germany

G Costa  
C Heyes

EA Railways: wagon control  
permanent way and  
earthworks

Government Actuary's department  
United Kingdom

R C Gilder

Pensions

Technical Experts (continued)Function

International Air Traffic Association,  
Switzerland and Canada

EA Airways

Richard Ellis and Partners, United Kingdom

Land Valuers

Sir Alexander Gibb and Partners,  
United Kingdom

T G Carpenter  
P D Hunter

Advice on 1975 EAC study;  
engineering aspects

Swiss Federal Railways, Switzerland

Dr E Meyer  
Dr M Schaerer

EA Railways: stores and  
spares

Individual Consultants

P Casson (Bahamas)  
C H Davies (United Kingdom)  
W Diamond (USA)  
Sir James Farquharson  
R Klee (USA)  
Sir Gordon Mackay  
M Mendez (UNDP-Philippines)

Assistant to Mediator  
Assistant to Mediator  
Advisor to Mediator  
Advisor to Mediator  
Assistant to Mediator  
Advisor to Mediator  
Legal Advisor to Mediator

Secretariat, Geneva

Miss Barbara Webb (United Kingdom)

Executive Secretary  
(January 1978 - March 1979)

Mrs Brownlee Thomas (Canada)

Executive Secretary  
(April 1979 - February 1980)



C

EAST AFRICAN COMMUNITY MEDIATIONFOREIGN EXCHANGE RATES AT 30 JUNE 1977

<u>Currency</u>	<u>Shillings Equivalent to Currency Unit</u>
	<u>1977</u>
Australian Dollar	9.27368
Austrian Schilling	0.50088
Belgian Franc	0.23055
Canadian Dollar	7.84723
Danish Kroner	1.37865
Deutsche Mark	3.55059
Finnish Markka	1.79535
French Franc	1.68981
Indian Rupee	0.94514
Iraqi Dinar	28.18529
Italian Lira	0.00940
Japanese Yen	0.03105
Kuwait Dinar	28.94733
Lebanese Pound	2.71003
Luxembourg Franc	0.23037
Netherlands Guilder	3.35681
New Taiwan Dollar	0.21876
Norwegian Kroner	1.56071
Pounds Irish	14.30001
Pounds Sterling	14.30001
Spanish Peseta	0.11927
Swedish Kroner	1.88841
Swiss Franc	3.37065
U. S. Dollar	8.31542
Zambian Kwacha	10.51469

**D**

## EAC MEDIATION

## REVISED BALANCE SHEETS OF THE COMMUNITY INSTITUTIONS AT THE DIVISION DATES

	TOTAL EAC (Note 1)				EA Railways (30 June 1977)				EA P&T (31 December 1976)			
	Total Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m	Total Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m	Total Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m
Fixed assets	9,576.5	5,000.9	3,364.9	1,210.7	5,310.9	2,712.4	1,799.5	799.0	1,069.8	511.6	354.3	203.9
Capital work in progress	880.4	343.1	421.1	116.2	133.8	80.4	40.8	12.6	182.0	57.6	51.4	73.0
Investments	31.2	20.5	5.3	5.4	-	-	-	-	-	-	-	-
<hr/>												
<u>Current assets</u>												
Stocks	547.9	395.5	106.1	46.3	305.0	233.7	63.4	7.9	149.5	84.4	26.8	38.3
Debtors	957.0	451.1	327.2	178.7	149.9	88.5	48.5	12.9	286.1	107.7	87.8	90.6
Cash	<u>991.1</u>	<u>551.2</u>	<u>387.7</u>	<u>52.2</u>	<u>99.4</u>	<u>76.0</u>	<u>33.9</u>	<u>(10.5)</u>	<u>144.1</u>	<u>88.1</u>	<u>47.8</u>	<u>8.2</u>
	<u>2,496.0</u>	<u>1,397.8</u>	<u>821.0</u>	<u>277.2</u>	<u>554.3</u>	<u>398.2</u>	<u>145.8</u>	<u>10.3</u>	<u>579.7</u>	<u>280.2</u>	<u>162.4</u>	<u>137.1</u>
<hr/>												
<u>Current liabilities</u>												
Creditors	(1,070.4)	(566.8)	(416.5)	(87.1)	(239.4)	(152.0)	(85.3)	(2.1)	(204.0)	(120.2)	(36.8)	(47.0)
Overdrafts (Note 2)	<u>(17.9)</u>	<u>(17.9)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(1,088.3)</u>	<u>(584.7)</u>	<u>(416.5)</u>	<u>(87.1)</u>	<u>(239.4)</u>	<u>(152.0)</u>	<u>(85.3)</u>	<u>(2.1)</u>	<u>(204.0)</u>	<u>(120.2)</u>	<u>(36.8)</u>	<u>(47.0)</u>
<hr/>												
Net current assets	<u>1,407.7</u>	<u>813.1</u>	<u>404.5</u>	<u>190.1</u>	<u>314.9</u>	<u>246.2</u>	<u>60.5</u>	<u>8.2</u>	<u>375.7</u>	<u>160.0</u>	<u>125.6</u>	<u>90.1</u>
Net assets	<u>11,895.8</u>	<u>6,177.6</u>	<u>4,195.8</u>	<u>1,522.4</u>	<u>5,759.6</u>	<u>3,039.0</u>	<u>1,900.8</u>	<u>819.8</u>	<u>1,627.5</u>	<u>729.2</u>	<u>531.3</u>	<u>367.0</u>
<hr/>												
<u>Representing</u>												
Share capital and reserves	9,032.0				4,551.5				1,136.2			
Long-term loans (Note 3)	<u>2,863.8</u>				<u>1,208.1</u>				<u>491.3</u>			
	<u>11,895.8</u>				<u>5,759.6</u>				<u>1,627.5</u>			

- Notes:
- 1 In producing the table of total EAC net assets, inter-corporation balances have not been eliminated.
  - 2 For certain corporations, overdrafts have been netted with cash balances.
  - 3 Long-term loans contain certain overseas assets and short-term liabilities.
  - 4 GFS work in progress and stocks are included in fixed assets.
  - 5 The special category of assets, "Miscellaneous items", has been excluded from this appendix.

## EAC MEDIATION

## REVISED BALANCE SHEETS OF THE COMMUNITY INSTITUTIONS AT THE DIVISION DATES

	EA Harbours (30 June 1977)				EA Airways (15 February 1977)				EA Extelcoms (31 March 1977)			
	Total Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m	Total Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m	Total Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m
Fixed assets	1,804.6	1,054.8	749.8	-	237.1	158.1	69.2	9.8	107.4	94.7	9.9	2.8
Capital work in progress	493.8	205.1	288.7	-	-	-	-	-	70.8	-	40.2	30.6
Investments	-	-	-	-	13.1	12.6	0.2	0.3	18.1	7.9	5.1	5.1
<hr/>												
<u>Current assets</u>												
Stocks	26.9	15.5	11.4	-	51.5	51.5	-	-	6.4	5.6	0.7	0.1
Debtors	184.8	82.0	102.8	-	45.6	9.7	9.3	26.6	136.3	99.0	23.1	14.2
Cash	<u>427.9</u>	<u>312.6</u>	<u>115.3</u>	<u>-</u>	<u>51.8</u>	<u>5.2</u>	<u>11.5</u>	<u>35.1</u>	<u>68.0</u>	<u>59.7</u>	<u>4.9</u>	<u>3.4</u>
	<u>639.6</u>	<u>410.1</u>	<u>229.5</u>	<u>-</u>	<u>148.9</u>	<u>66.4</u>	<u>20.8</u>	<u>61.7</u>	<u>210.7</u>	<u>164.3</u>	<u>28.7</u>	<u>17.7</u>
<u>Current liabilities</u>												
Creditors	(41.7)	(19.9)	(21.8)	-	(172.6)	(141.8)	(29.9)	(0.9)	(57.7)	(35.6)	(12.2)	(9.9)
Overdrafts (Note 2)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11.1)</u>	<u>(11.1)</u>	<u>-</u>	<u>-</u>	<u>(6.8)</u>	<u>(6.8)</u>	<u>-</u>	<u>-</u>
	<u>(41.7)</u>	<u>(19.9)</u>	<u>(21.8)</u>	<u>-</u>	<u>(183.7)</u>	<u>(152.9)</u>	<u>(29.9)</u>	<u>(0.9)</u>	<u>(64.5)</u>	<u>(42.4)</u>	<u>(12.2)</u>	<u>(9.9)</u>
<hr/>												
Net current assets	<u>597.9</u>	<u>390.2</u>	<u>207.7</u>	<u>-</u>	<u>(34.8)</u>	<u>(86.5)</u>	<u>(9.1)</u>	<u>60.8</u>	<u>146.2</u>	<u>121.9</u>	<u>16.5</u>	<u>7.8</u>
Net assets	<u>2,896.3</u>	<u>1,650.1</u>	<u>1,246.2</u>	<u>-</u>	<u>215.4</u>	<u>84.2</u>	<u>60.3</u>	<u>70.9</u>	<u>342.5</u>	<u>224.5</u>	<u>71.7</u>	<u>46.3</u>
<u>Representing</u>												
Share capital and reserves	2,045.3				123.7				292.5			
Long-term loans (Note 3)	<u>851.0</u>				<u>91.7</u>				<u>50.0</u>			
	<u>2,896.3</u>				<u>215.4</u>				<u>342.5</u>			

- Notes:
- 1 In producing the table of total EAC net assets, inter-corporation balances have not been eliminated.
  - 2 For certain corporations, overdrafts have been netted with cash balances.
  - 3 Long-term loans contains certain overseas assets and short-term liabilities.
  - 4 GFS work in progress and stocks are included in fixed assets.
  - 5 The special category of assets, "Miscellaneous items", has been excluded from this appendix.

EAC MEDIATIONREVISED BALANCE SHEETS OF THE COMMUNITY INSTITUTIONS AT THE DIVISION DATES

	<u>EA Cargo Handling (31 December 1976)</u>					<u>GFS (30 June 1977)</u>			
	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m		<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Fixed assets	35.7	17.0	18.7	-		1,011.0	452.3	363.5	195.2
Capital work in progress	-	-	-	-	(Note 4)	-	-	-	-
Investments	-	-	-	-		-	-	-	-
<hr/>									
<u>Current assets</u>									
Stocks	8.6	4.8	3.8	-	(Note 4)				
Debtors	31.7	10.2	21.5	-		122.6	54.0	34.2	34.4
Cash	<u>76.9</u>	<u>7.1</u>	<u>69.8</u>	<u>-</u>		<u>123.0</u>	<u>2.5</u>	<u>104.5</u>	<u>16.0</u>
	<u>117.2</u>	<u>22.1</u>	<u>95.1</u>	<u>-</u>		<u>245.6</u>	<u>56.5</u>	<u>138.7</u>	<u>50.4</u>
<hr/>									
<u>Current liabilities</u>									
Creditors	(18.4)	(8.5)	(9.9)	-		(336.6)	(88.8)	(220.6)	(27.2)
Overdrafts (Note 2)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(18.4)</u>	<u>(8.5)</u>	<u>(9.9)</u>	<u>-</u>		<u>(336.6)</u>	<u>(88.8)</u>	<u>(220.6)</u>	<u>(27.2)</u>
<hr/>									
Net current assets	<u>98.8</u>	<u>13.6</u>	<u>85.2</u>	<u>-</u>		<u>(91.0)</u>	<u>(32.3)</u>	<u>(81.9)</u>	<u>23.2</u>
Net assets	<u>134.5</u>	<u>30.6</u>	<u>103.9</u>	<u>-</u>		<u>920.0</u>	<u>420.0</u>	<u>281.6</u>	<u>218.4</u>
<hr/>									
<u>Representing</u>									
Share capital and reserves	107.4					775.4			
Long-term loans (Note 3)	<u>27.1</u>					<u>144.6</u>			
	<u>134.5</u>					<u>920.0</u>			

- Notes: 1 In producing the table of total EAC net assets, inter-corporation balances have not been eliminated.  
2 For certain corporations, overdrafts have been netted with cash balances.  
3 Long-term loans contains certain overseas assets and short-term liabilities.  
4 GFS work in progress and stocks are included in fixed assets.  
5 The special category of assets, "Miscellaneous items", has been excluded from this appendix.



APPENDIX E - EAST AFRICAN RAILWAYS CORPORATION

CONTENTS

	<u>Paragraphs</u>	
I	INTRODUCTION	1 - 23
	Background	1 - 12
	Break-up of Railways	4 - 7
	Formation of new corporations	8
	EA Railways' accounts and accounting records	9
	Accounting in the regions	10 - 12
	Information not available	13 - 21
	Kenya	14 - 18
	Tanzania	19 - 20
	Uganda	21
	Basis of determination of assets and liabilities	22
	Exchange rates	23
II	ASSETS AND LIABILITIES	24 - 94
	Fixed assets	25 - 68
	Valuation of fixed assets	29 - 46
	Civil structures	30 - 31
	Mechanical plant and equipment	32
	Earthworks	33 - 42
	Permanent Way	43 - 46
	Division of fixed assets	47
	Locomotives and rolling stock	48 - 63
	Locomotives	49 - 53
	Capital spares for locomotives	54 - 55
	Rolling stock	56 - 63
	Plant, machinery and vehicles	64
	Marine assets	65 - 68
	Valuation of the ships transferred to Tanzania	66
	Equipment belonging to the three transferred ships	67
	Capital work in progress	69 - 71
	Stocks	72 - 76
	Debtors	77



	<u>Paragraphs</u>
Cash and bank balances	78 - 84
Current liabilities	85 - 87
Loan capital	88 - 93
Overdraft with Crown Agents	92
Loan interest	93
Sinking funds	94

III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

IV SCHEDULE OF EA RAILWAYS' LOANS AT 30 JUNE 1977

V SINKING FUND INVESTMENTS AT 30 JUNE 1977

EAST AFRICAN RAILWAYS CORPORATIONI INTRODUCTIONBackground

1 The Kenya and Uganda Railways and Harbours was administered as a single concern from its inception until 1948. In 1948 the Tanganyika Railways and Port Services was amalgamated with the Kenya/Uganda undertaking to form the East African Railways and Harbours Administration. The Treaty provided for separate rail and harbours corporations and EA Railways was thereafter established on 1 June 1969.

2 EA Railways operated all public rail services in East Africa with the exception of the "Tazara" line between Dar es Salaam and Zambia which opened in 1975. EA Railways also operated marine services on Lake Victoria and Lake Tanganyika and ran certain road services in Tanzania and Uganda.

3 In accordance with the legislation which established EA Railways as a Community corporation, the headquarters was located in Nairobi. However, following a policy of decentralisation, regional organisations were established in each of the Partner States - in Nairobi, Kampala and Dar es Salaam. Although many functions were transferred to the regions, the Nairobi headquarters continued to be responsible for most of the accounting functions, including preparation of accounts and maintenance of fixed assets registers.

Break-up of Railways

4 By the end of 1975 the operations of EA Railways had been largely decentralised and headquarters' control over the regions had diminished to a great extent. The rail link between Kenya and Tanzania was closed in 1975 and has not yet been re-opened. From June 1975, Tanzania region ceased processing information on the EA Railways' computer in Nairobi. In 1975 the Crown Agents suspended procurement of spares because its accounts were not paid. Because of the shortage of spare parts, the management of EA Railways authorised the suspension of passenger services in Kenya for a short period in early 1975.

5 At the end of July 1976 revenue collection in respect of Kenya/Uganda services ceased on a co-operative basis; from then on each country collected revenue in respect of travel within its borders.

6 From 1975 cash remittances were made infrequently from the regions to the headquarters. While cash was held in the regions - in Nairobi, Dar es Salaam and Kampala, the headquarters in Nairobi was often seriously short of funds.

7 Funds were not always available at headquarters for the payment of staff salaries. The regions then transferred the salaries of their own nationals employed at headquarters. Morale at headquarters was low because of the uncertain future, and little accounting and operational information was produced after the middle of 1975. With the deterioration in the situation continuing, all staff working at the headquarters, with the exception of a few senior officers, were transferred to the regions on 10 August 1976.

#### Formation of new corporations

8 Following the closure of the headquarters, each Partner State set up its own national corporation to run the EA Railways' operations within its own country:-

(a) Kenya Railways

Kenya Railways was formed in February 1977 and was formally incorporated by the Kenya Railways Corporation Act 1978 with effect from 20 January 1978. The Act provided for all contracts, liabilities and employees of EA Railways in Kenya to be taken over by Kenya Railways.

(b) Tanzania Railways

Tanzania Railways was established in January 1977 and formally incorporated by the Tanzania Railways Act 1978 with effect from 27 October 1977. Tanzania Railways took over the majority of the employees who were formally employed by EA Railways in Tanzania.

(c) Uganda Railways

Uganda Railways was established, with effect from 1 July 1977, by Presidential Decree, dated 26 August 1977 to be responsible, "on a

caretaker basis, for the affairs of the East African Railways Corporation until such time as the assets of the East African Railways Corporation are divided by the Authority amongst the Partner States".

#### EA Railways' accounts and accounting records

9 The last audited accounts of EA Railways were for the year ended 31 December 1973 and were subject to several material qualifications by the Auditor-General of the EAC in his report. Draft accounts of EA Railways were prepared for the year ended 31 December 1974 but none have been prepared since. However, the Mediator took the view that it was necessary, for the purpose of dividing assets and liabilities, to obtain the best possible picture of the Corporation at the time when the EAC collapsed; this was 30 June 1977 which date was designated as the division date.

#### Accounting in the regions

10 Kenya Railways has concluded that it is not possible to produce accurate accounts for any of the three years up to 31 December 1977 and the Kenya Railways Act states that the first year for which accounts for Kenya Railways shall be required is the year ended 31 December 1978. The Mediator understands that these accounts have now been produced.

11 Tanzania Railways and Uganda Railways have had difficulty in establishing their accounting systems because of the location of the EA Railways' headquarters in Nairobi. The regions relied on the headquarters for processing accounting information and Tanzania Railways and Uganda Railways claim that in spite of repeated requests they have not had satisfactory access to headquarters' information and records which they require to establish their own systems. As with Kenya Railways, the Mediator understands that it was the intention of Tanzania Railways and Uganda Railways to produce their first accounts for the year ended 31 December 1978.

12 No accounts, therefore, were available on a regional basis for the period 1 January 1975 to 30 June 1977 although the Mediator's consultants obtained accounting information on a piecemeal basis from each of the regions.

Information not available

13 In the following paragraphs the Mediator briefly sets out the information which he required but which was not supplied to him in the regions.

Kenya

14 In order to have as complete a picture as possible of the position of EA Railways at 30 June 1977, the Mediator requested that he should be provided, along with the other information, with full details of the following:-

- (a) a full list of fixed assets and stocks based on a physical count, including assets purchased in Kenya in the period 1 January 1975 to 30 June 1977 which were financed by the Kenya Government or through Kenya Railways;
- (b) accounting information relating to stocks at 30 June 1977;
- (c) details of individual debtor balances and creditor balances at 30 June 1977;
- (d) details of certain bank accounts in Kenya in the period 1 July 1976 to 30 June 1977;
- (e) certain records of rolling stock including the assets cards maintained by the chief mechanical engineer and detailed wagon control reports.

However, contrary to the Mediator's terms of reference, Kenya Railways did not make the required data available as in their opinion it was not relevant to the mediation. The Mediator's repeated requests for information were unsuccessful; he had, therefore, to resort to estimates, where appropriate, in order to cover the gaps. Only since the fact-finding meetings held in Nairobi in 1981 has information concerning bank accounts been provided and this in an incomplete form (see paragraph 81).

15 Kenya Railways maintained both computerised and manual fixed assets registers for the assets of the former Kenya region and headquarters. However, the Mediator was advised by Kenya Railways' officials that the computerised registers for 1975 and 1976 were unreliable. Moreover no physical count has been carried out in recent years, although the Mediator urged several times that one be completed to assist the mediation exercise.

16 Stock records are maintained in Kenya but the Mediator's consultants did not consider them to be reliable. There has been no physical count of stock since 1974, although one was requested by the Mediator.

17 Summaries of debtors and creditors were provided to the Mediator but detailed information did not accompany them.

18 All EA Railways' records of the pension funds, sinking funds, loans and provisions were maintained in Nairobi.

#### Tanzania

19 Up to 31 December 1974 Tanzania Railways had information only for those balances for which details were maintained locally before the break-up of EA Railways, principally trade debtors, salaries and bank accounts. Since 31 December 1974 only limited records have been maintained.

20 Tanzania Railways has carried out a physical count of fixed assets but it will need to continue its efforts before it can establish a full fixed assets register. A physical count of fixed assets at 30 June 1977 was commissioned by the Government of Tanzania but the Tanzanians themselves did not consider that the results were sufficiently accurate; the Mediator's technical experts relied on additional information when making their valuation.

#### Uganda

21 The accounting records in Uganda were limited to those balances for which details were maintained locally before the break-up of EA Railways,

principally trade debtors, salaries and bank accounts. Although many of the procedures for recording information are still carried out, there is no processing function available to convert the data into meaningful information. Uganda Railways made physical counts of fixed assets in response to the Mediator's requests but, in the absence of accounting records in Uganda, and because of doubts over the completeness and accuracy of these counts, they were of limited value only in assisting the Mediator's consultants.

#### Basis of determination of assets and liabilities

22 Because of these gaps in information, the assets and liabilities of EA Railways in each Partner State as at 30 June 1977 were calculated by reference to:-

- (a) the last available draft accounts, made up to 31 December 1974;
- (b) details of movements in assets and liabilities from 31 December 1974 to 30 June 1977, derived by WG1 from their investigation of the incomplete EA Railways' records which were made available to them; and
- (c) such physical inspection of fixed assets as was carried out by the Mediator's consultant engineers.

The information given in this appendix takes account of the memoranda written by the three Partner States to the Mediator in 1980 and the comments made at the Mediator's fact-finding meetings held in Nairobi in May 1979 and July 1981 and information provided as a consequence of those meetings.

#### Exchange rates

23 The rates of exchange at 30 June 1977, which have been used in this Report, are set out at Appendix C.

## II ASSETS AND LIABILITIES

24 The estimated assets and liabilities of EA Railways, as revalued at 30 June 1977 by the Mediator's working group, are set out below. The figures are based on the information obtained by the Mediator's consultants and experts, including the information which came to light as a result of the fact-finding meetings held in Nairobi in May 1979 and July 1981. The valuation and division is in accordance with the methodology set out in Part IV of this Report.

	<u>Paragraphs</u>	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Fixed assets (at current value)	25 - 68	5,310.9	2,712.4	1,799.5	799.0
Capital work in progress	69 - 71	133.8	80.4	40.8	12.6
Current assets					
Stocks	72 - 76	305.0	233.7	63.4	7.9
Debtors	77	149.9	88.5	48.5	12.9
Cash and bank balances	78 - 84	99.4	76.0	33.9	(10.5)
		<u>554.3</u>	<u>398.2</u>	<u>145.8</u>	<u>10.3</u>
less					
Current liabilities					
Creditors and accrued charges	85 - 87	(239.4)	(152.0)	(85.3)	(2.1)
Net current assets		<u>314.9</u>	<u>246.2</u>	<u>60.5</u>	<u>8.2</u>
Net assets		<u><u>5,759.6</u></u>	<u><u>3,039.0</u></u>	<u><u>1,900.8</u></u>	<u><u>819.8</u></u>
			52.8%	33.0%	14.2%
<u>Financed by</u>					
Loan capital (note 1)	88 - 93	1,273.6			
Less sinking funds	94	(65.5)			
		<u>1,208.1</u>			
Reserves		<u>4,551.5</u>			
		<u><u>5,759.6</u></u>			

Notes: 1 For the purposes of this balance sheet loan capital includes the headquarters' overdraft with the Crown Agents and outstanding loan interest (paragraph 88).



- 2 The assets and liabilities of the pension funds have been excluded from the above balance sheet.
- 3 As the assets and liabilities of EA Cargo Handling are being dealt with separately, the Mediator has omitted the investment in EA Cargo Handling from the net assets of EA Railways.

Fixed assets Shs 5,310.9 million

25 An analysis of fixed assets is set out below:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Earthworks	685.0	265.6	259.1	160.3
Buildings	829.0	477.1	228.2	123.7
Bridges	115.2	44.6	27.5	43.1
Permanent way	2,012.0	956.0	753.0	303.0
Locomotives	603.4	358.2	196.9	48.3
Rolling stock	641.8	404.8	165.2	71.8
Plant, machinery and vehicles	200.3	117.9	56.1	26.3
Marine	153.7	46.8	96.0	10.9
Telegraph and signalling	70.5	41.4	17.5	11.6
	<u>5,310.9</u>	<u>2,712.4</u>	<u>1,799.5</u>	<u>799.0</u>
		51.1%	33.9%	15.0%

26 The fixed assets were ascertained to the extent possible from the records of the Corporation including:-

- (a) the reports of physical counts of fixed assets in Tanzania and Uganda;
- (b) the various fixed assets registers available which were made up to various dates;
- (c) the capital project completion reports and monthly reports on capital work in progress available at EA Railways' old headquarters; and
- (d) such other documents as were made available in each Partner State including plans, line sheets and other engineering records.

limited additional physical inspection of the other fixed assets was made by the Mediator's technical experts.

27 The Mediator's experts were handed a copy of the 1976 computer fixed assets register for EA Railways, but did not base their findings on it.

28 The working group considered it a more accurate approach to take as their starting point the 1974 draft accounts of EA Railways - the last ones prepared on an East African basis, which were themselves based on the 1973 computer fixed assets register. This register not only supported the 1973 accounts, which had been audited by the Auditor General, but had also been extensively tested by outside consultants. Working Group 1 and the technical experts updated the figures at 31 December 1974 on the basis of information relating to additions and disposals of assets obtained from the accounts' departments and engineering departments in all three countries. The 1976 computer register, not considered reliable by Kenya Railways themselves nor by the Working Group, would have required vigorous testing before it could have been used, and even then with questionable results. This would have involved access to the computer tape and to computer time - neither of which were granted by Kenya Railways to Working Group 1.

#### Valuation of fixed assets

29 The fixed assets were valued at depreciated replacement cost by the Mediator's technical experts in accordance with the principles laid down in paragraphs 413 to 430 of this Report. A schedule of the depreciation rates which the technical experts considered appropriate is set out in Part III of this Appendix.

#### Civil structures

30 Civil structures, including earthworks, buildings and bridges, were valued according to the construction specification, on the basis of local construction costs. In accordance with the Mediator's instructions, construction cost rates were derived by the technical experts on the basis of 1972 rates in each Partner State, increased to 30 June 1977 in line with inflation indices obtained from the Kenya Bureau of Statistics. Works constructed between 1 January 1975 and 30 June 1977 were valued on the basis of their actual cost inflated to the division date by the Kenyan rate of

inflation. Permanent way and river and lake piers were valued using the same unit cost rate for all three Partner States.

31 Allowance was made in the valuation of buildings to cover the general equipment associated with them - furniture, office equipment, plant such as lifts and air conditioning in office blocks, sliding doors and loading bays to transit sheds, pits in workshops and all services. Special equipment, such as computers, stand-by generators and internal cranes, was valued separately. Car parks, landscaped areas and approach drives in the vicinity of buildings have been allowed for in calculating the overall rates used for valuation. Furniture and equipment owned but kept in rented offices have been included in the valuation.

Mechanical plant and equipment

32 Mechanical plant and equipment has been valued in all three Partner States at FOB cost ex Europe or USA at the division date, uplifted for freight and insurance. Assets in service have been given a residual value of 10% if they are time-expired. Locomotives in workshops were also valued at 10% as, without their being stripped down, it was not possible to assess the extent of the necessary repairs.

Earthworks Shs 685.0 million

33 The experts established existence of the earthworks by a thorough examination of all the line sheets, by discussions with officials and by a limited physical inspection. Their conclusions may be summarised as follows:-

	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
Length of running track (miles)	<u>1,194</u>	<u>1,611</u>	<u>766</u>
	$m^3$	$m^3$	$m^3$
Total earthworks	10,557,211	12,675,776	6,575,243
Representing averages:			
Earthworks per mile	8,842.00	7,868.00	8,584.00
Earthworks per metre	5.50	4.89	5.34
Earthworks height (m)	0.96	0.88	0.94

34 The quantity of earthworks in each section of the line was as follows:-

	$m^3$
(a) Kenya:	
Mombasa - Malaba	6,902,992
Nanyuki Branch	1,032,889
Nakuru - Kisumu	1,531,411
Kisumu - Butere	187,525
Thomson's Falls	229,236
Kitale Branch	170,094
Rongai - Solai	94,647
Voi - Kahe	302,304
Other	106,113
Total for Kenya	<u><u>10,557,211</u></u>
(b) Tanzania:	
Central Line	6,823,066
Mwanza Branch	1,354,772
Mnyusi - Ruvu	1,318,833
Mpanda Branch	981,620
Kilosa - Kidatu	1,057,662
Tanga - Arusha	1,139,823
Total for Tanzania	<u><u>12,675,776</u></u>
(c) Uganda:	
Malaba - Kasese	4,587,206
Busembatia - Jinja	486,549
Tororo - Pakwach	1,501,488
Total for Uganda	<u><u>6,575,243</u></u>

35 The rates used to value earthworks were as follows:-

	$\text{Shs.}m^3$
Kenya	25.2
Tanzania	23.2
Uganda	25.2

Originally a rate of Shs 35.1/cubic metre had been used for Uganda. This rate, which had been derived by the Mediator's experts in accordance with the chosen methodology, the Ugandans considered too high, suggesting to the Mediator that rates in Uganda were no higher than elsewhere and pointing out that no major earthworks had been constructed in Uganda since 1964.

36 The Mediator's methodology for locally constructed assets, including earthworks (see paragraphs 417 - 419) was intended to eliminate the effects of the widely different inflation rates in the Partner States during the last five years of the Community - a time by when most of the assets had already been constructed. To achieve this objective, he instructed his experts to express all costs at 1972 levels, - at which period construction costs were roughly similar, and then to update them to the division dates by using a common index of inflation. The Kenyan index was chosen, as it was the lowest. The Mediator expected this methodology to result in costs in the three countries, being broadly of the same order, though not necessarily identical (transport costs might be different, etc).

37 The 1972 costs for Kenya and Tanzania were derived by using appropriate local indices. However, the experts were unable to discover a suitable index for Uganda. To get round this problem, discussions were held with Government and corporation officials in Uganda and, on the basis of data supplied both orally and in writing by them, the costs of construction in Uganda in 1972 were established.

38 As far as earthworks were concerned, the comparative 1972 costs were as follows:-

	Shs/cu metre
Kenya	12.9
Tanzania	11.9
Uganda	18.0

Such a disparity in construction costs between Uganda and the other two countries, which was somewhat unexpected, caused the Mediator as early as 1979 to re-examine this question. However, in the absence of any good evidence to the contrary, he felt unable to change the figures which had originated from Uganda itself.

39 Contrary to Uganda's view the Mediator's methodology was applied consistently to the figures given in paragraph 38; by applying the Kenyan index of inflation to these figures the resulting rates at June 1977 are those set out in paragraph 35.

40 In 1981, Uganda stated that the figures, originally supplied by its officials were erroneous. However, no evidence was produced at the fact-finding meetings, nor has any been supplied since, to demonstrate that they are inaccurate. But the Mediator recognised that there were some uncertainties in the figures forwarded in 1978 by Uganda. For this reason, the Kenyan authorities were once again approached during the fact-finding meetings in July last, and subsequently directly by the Mediator, to see whether they could once more examine the EA Railways files kept in Nairobi and clarify the position. However, Kenya told the Mediator that they were unable to help, as the relevant records had been repatriated to Uganda.

41 In these circumstances, the Mediator concluded that a similarity of cost levels in 1972 was more likely to reflect the true position than the wide divergence indicated in the data supplied. He therefore adopted for Uganda the same 1972-cost level as for Kenya and thus accepted the submission by Uganda in 1981 as justified. Indeed, he would have queried the original data earlier, had they not been based on figures supplied by Uganda itself. At the Kenyan rate of Shs 25.2/cu metre, in 1977, the value of earthworks in Uganda is set at Shs 160.3 million.

42 The value of earthworks has been reduced by an amount of Shs 44.6 million to allow for the effects of heavy rainfall over certain sections of the track, made up as follows:-

	Shs.m
Tanzania:	
Kaliva to Mpanda	15.0
Mnyusi to Ruvu	12.0
Kalwa to Kigoma	8.0
Total reduction	<u>35.0</u>
Uganda:	
Kampala to Kasese:	
Katanga river	8.0
Lake George	1.6
Total reduction	<u>9.6</u>
	<u>44.6</u>

The above adjustments are included in the valuation of earthworks in paragraph 25. No adjustment for the adverse effects of heavy rainfall was considered necessary for Kenya.

Permanent way Shs 2,012.0 million

43 As stated in paragraph 426 of the Report, the Mediator retained an engineering expert in June 1979 to carry out a physical examination of the permanent way. The engineer visited all three Partner States and inspected the rails and fastenings, sleepers, ballast and sub-base of a substantial proportion of the system. He concluded that an adjustment to the depreciated replacement cost valuation was appropriate to take account of inadequate maintenance.

44 This adjustment also took account of the changes in the condition of the track in the two years between the division date and the date of the physical inspection. On the basis of information supplied to him, the technical expert increased the value of permanent way in Uganda at the division date by Shs 28 million but proposed no adjustment to the Tanzanian figure. No allowance has been given to Kenya for any possible change in the value of their permanent way as Kenya Railways supplied no information on which to assess an adjustment.

45 The amount of Shs 28 million for Uganda was calculated as the engineer's estimate of the amount which would have been required to have been spent on the permanent way in the two years ended June 1979 to have maintained it in its June 1977 condition. Although Uganda has questioned this adjustment, the Uganda Railways officials have admitted that the permanent way had deteriorated during the period, and no evidence has been produced to indicate the calculation of the amount to be inaccurate. No similar adjustments were required in Kenya and Tanzania because their maintenance programmes had kept up the value of the permanent way in those countries.

46 On the basis of the results of the physical examination, the permanent way has been valued as follows:-

	Shs.m
Kenya	956.0
Tanzania	753.0
Uganda	303.0
	<hr/>
	2,012.0
	<hr/> <hr/>

Division of fixed assets

47 The Mediator has taken note of the division of fixed assets on the basis of their geographical location at 30 June 1977 with the following exceptions:-

- (a) rolling stock has been divided on the basis of such evidence as the Mediator could obtain, including wagon control reports of the quantity of rolling stock generally operating in each country; and
- (b) the three ships which were transferred from Kenya to Tanzania in May 1978 have been allocated to Tanzania.

Locomotives and rolling stock

48 The Mediator faced special problems over the division of locomotives and rolling stock because of their easy transferability from one country to another, especially between Kenya and Uganda, and because, particularly



in the case of coaches and wagons, of the difficulty in determining the exact numbers and their location within the system.

Locomotives Shs 603.4 million

49 Locomotives were attached to a home depot. The numbers and classes of locomotives in service at 30 June 1977 allocated by home depot were as follows:-

<u>Class</u>	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
Steam 12	2	-	2	-
13	18	13	5	-
21	2	-	2	-
25	5	-	5	-
26	6	-	6	-
29	30	18	12	-
30	26	1	25	-
31	45	21	12	12
55	6	3	3	-
59	32	32	-	-
60	24	12	7	5
	<u>196</u>	<u>100</u>	<u>79</u>	<u>17</u>
Diesel 32	6	6	-	-
33	6	6	-	-
34	6	-	6	-
35	15	5	4	6
43	13	7	6	-
44	3	3	-	-
45	10	10	-	-
46	22	22	-	-
61	10	-	-	10
71	10	10	-	-
72	10	5	2	3
79	1	1	-	-
87	42	34	8	-
88	20	-	20	-
92	15	15	-	-
	<u>189</u>	<u>124</u>	<u>46</u>	<u>19</u>
	<u>385</u>	<u>224</u>	<u>125</u>	<u>36</u>

50 Included among the locomotives in Kenya are eight locomotives, currently operating in Kenya which were originally purchased to be based in Uganda:-

<u>Numbers</u>	<u>Value</u> <u>Shs.m</u>
7202	3.1
7203	3.2
7209	3.2
7210	3.2
8710	3.4
8711	3.4
8729	3.4
9215	5.6
	<hr/>
	28.5
	<hr/> <hr/>

The Mediator considers that in equity these locomotives belong to Uganda. However, in view of the time that has elapsed since the division dates and the consequent deterioration in the locomotives, Uganda suggested and the Mediator agreed that the locomotives be charged to Kenya and not transferred to Uganda. He noted the Kenyan willingness to comply with this proposal and to keep "some of the locomotives ... to assist with the movement of Ugandan goods through Kenya".

51 The view was expressed to the Mediator in more than one Partner State that extremely old and unserviceable locomotives, many of which were withdrawn from service shortly after the division date, should be excluded from the valuation or valued as scrap.

52 The principle adopted for the valuation of locomotives was that all locomotives which had not been scrapped at 30 June 1977 should be valued at depreciated replacement cost. Straight line depreciation was applied at the rate which would write the locomotives down to 10% of their replacement cost after 23 years. After this no further depreciation was applied. The only exception was for locomotives in workshops awaiting overhaul, which were valued at 10% of replacement cost whatever their age. Locomotives which had been scrapped were valued at nil.

53 No documentary evidence has been presented that any of the locomotives which were assigned a value had been scrapped at 30 June 1977. However, a physical inspection carried out in Tanzania in October 1979 by his expert, and consultation with other experts, have led the Mediator to conclude that, in view of their age, all class "11" and class "24" locomotives should be deemed to have been scrapped at the division date and given a nil value, irrespective of their location.

Capital spares for locomotives

54 As the main stores were located in Nairobi it is highly probable that they contained, and still contain, capital spares and other stores which relate to assets held in one of the two other Partner States. In the absence of a detailed list of stores in Kenya the Mediator is unable to say exactly how many of such stores there are though, as an indication, he was informed by the Crown Agents that capital spares were supplied, for example, for certain locomotives as follows:-

<u>Class</u>	<u>Numbers of locomotives</u>			Value
	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>	<u>of spares</u> Shs.m
35	5	4	6	0.9
61	0	0	10	2.3
72	2	3	5	2.6
				<u>5.8</u>
				<u><u>5.8</u></u>

In the Mediator's view it must be assumed that the majority of these stores were still in Nairobi and have been included in the value attributed to stores in Kenya.

55 The Mediator recommends that bilateral or trilateral discussions are held with a view to ascertaining which stores, held in Kenya, might reasonably be transferred to the other Partner States - outside of the Mediation. In the absence of accurate information, no such transfer of EA Railways' spares from one Partner State to another is proposed as part of the mediation.

Rolling stock Shs 641.8 million

56 Rolling stock, other than a small proportion which was designated for use in only one Partner State, was moved round the system according to traffic demands which were to an extent seasonal as related to crops such as sisal, coffee and cotton. Following the closure of the rail link between Kenya and Tanzania at Taveta in 1975 and the suspension of the wagon ferry

service, the rolling stock in Tanzania was isolated; therefore, although there are considerable problems in determining the exact number of coaches and wagons as the records are uncertain and conflicting, there is no reason to believe that there is a significant inequity between Tanzania and the other Partner States.

57 The conflicting information gathered by WG1 in Tanzania may be summarised as follows:-

	<u>Number of wagons</u>
(a) Oral information supplied to WG1 in July 1979 by Kenya Railways Chief Traffic Manager (Approximate)	5,000
(b) Letter from EA Railways Chief Traffic Manager dated 18 June 1975 (Suggested allocation)	3,720
(c) Per EA Railways' wagon control print out May 1975 (WG1 was informed that there were no scrappings in the period 1 June 1975 to 30 June 1977)	3,739
(d) Per Tanzania Railways Report	3,540
(e) Per Task Force Report, Tanzania	3,560
(f) Per Chief Mechanical Engineer of Tanzania Railways at September 1978	2,759

58 None of the figures appeared entirely reliable, so the consultants took, as a starting point, the number of wagons and coaches in Tanzania (and in the other Partner States) at 31 December 1974, the last date for which realistic accounts were available and adjusted them for all known additions and disposals in the period 1 January 1975 to 30 June 1977.

59 It is probable that the principal reason for the discrepancy between the figure supplied by the Chief Mechanical Engineer of Tanzania Railways and the figure of the Mediator's team is a difference of opinion as to the extent to which the older rolling stock should be included in the valuation. The technical experts were of the opinion that all rolling stock which had not been scrapped should be given a value. This same principle was also followed in the other two Partner States. However, it should be noted that time expired rolling stock and rolling stock awaiting repairs were given a value of only 10% of their replacement cost.

60 In the case of Kenya and Uganda, the position was different inasmuch as the majority of Uganda's imports and exports were carried through Kenya on the railway and, consequently, Uganda had a continually changing rolling stock population. The problems of identifying and assigning the rolling stock in Kenya and Uganda are discussed in paragraphs 447 to 458 of this Report.

61 The numbers of rolling stock, and the allocation to Partner States, represented by the values shown in the total in paragraph 25, are as follows:-

	Number of rolling stock (wagons plus coaches)			
	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
At 31 December 1974 according to the wagon control print-out	11,296	6,186	4,018	1,092
Additions: wagons	100	100	-	-
Disposals/scrapped: wagons	(204)	(168)	(31)	(5)
coaches	(9)	(9)	-	-
At 30 June 1977	<u>11,183</u>	<u>6,109</u>	<u>3,987</u>	<u>1,087</u>
Comprising: wagons	10,368	5,724	3,660	984
coaches	<u>815</u>	<u>385</u>	<u>327</u>	<u>103</u>
		54.6%	35.7%	9.7%

The above table, as may be seen, was compiled by considering the position at 31 December 1974, according to the wagon control records, which in the opinion of the consultants were as reliable as any of the rolling stock records, and adjusting it for the known additions and disposals in the

62 There are two points in particular to stress about the numbers and location of rolling stock. First, the Tanzanian border has been closed to rail movements since February 1975, but rail movements continue between Uganda and Kenya.

63 Second, although there is considerable and wide ranging conflicting information on the number of coaches and wagons operating in the system, the proportions indicated in the above table are in approximate agreement with those reported by the wagon control records at a number of different dates and, furthermore, are in roughly the same proportion as the division of locomotives on the basis of home depot. The Mediator, therefore, is of the opinion that, in this uncertain area, the division of rolling stock indicated in the table is reasonable and fair to all three Partner States.

Plant, machinery and vehicles Shs 200.3 million

64 Plant, machinery and vehicles may be analysed as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Station machinery	14.0	6.3	5.1	2.6
Water supplies	96.6	65.1	19.8	11.7
Stores plant	16.5	7.7	5.9	2.9
Vehicles, machinery and general plant	64.1	35.5	20.1	8.5
Railway section	9.1	3.3	5.2	0.6
	<u>200.3</u>	<u>117.9</u>	<u>56.1</u>	<u>26.3</u>

Marine assets Shs 153.7 million

65 The figure for marine assets comprises both lake and river piers (EA Railways' assets group 1900) and vessels and marine equipment (EA Railways' assets group 7600), as follows:-

	<u>Paragraphs</u>	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Lake and river piers	-	43.6	11.9	22.7	9.0
Vessels and marine equipment	68	110.1	34.9	73.3	1.9
Total	25	<u>153.7</u>	<u>46.8</u>	<u>96.0</u>	<u>10.9</u>

The figures are the same as those set out in the report of the experts, dated November 1978, which has been given to the Partner States, with the following exceptions:-

- (a) the three transferred ships, valued at Shs 65.1 million, which were left unallocated by the experts, have been assigned to Tanzania by the Mediator; and
- (b) the value of vessels and marine equipment in Tanzania has been reduced by Shs 3.9 million to exclude the vessel "Nyanza".

Valuation of the ships transferred to Tanzania

66 The three ships transferred from Kenya to Tanzania in May 1978 have been valued at depreciated replacement cost by the Mediator's experts as follows:-

	<u>Replacement cost</u> Shs.m	<u>Depreciation</u> Shs.m	<u>Depreciated replacement cost</u> Shs.m
Victoria	66.1	32.8	33.3
Nyangumi	35.1	16.2	18.9
Umoja	25.6	12.7	12.9
	<u>126.8</u>	<u>61.7</u>	<u>65.1</u>

The replacement cost of these and other vessels was arrived at after lengthy discussions by the experts with the original builders and other shipyards.

Equipment belonging to the three transferred ships

67 At the time of the expert's visit to Mwanza to inspect the ships, most of the equipment which should have been on the ships, was missing. No inventory of the equipment was established at the time the three ships were transferred from Kenya to Tanzania; nor has either country provided the Mediator with details of equipment. The Mediator's technical expert, after examining the orders for equipment which Tanzania had placed to refurbish the vessels and after discussing the problem with shipbuilders in the United Kingdom, has valued the equipment at Shs 0.5 million. The Mediator proposes that this amount be allocated to Kenya as, on balance, it appears very likely that, in advance of the transfer, some of the equipment belonging to the ships had been

68 A list showing the values of the major vessels owned by EA Railways, including the three transferred to Tanzania, is set out below:-

	Shs.m	Shs.m
<u>Kenya</u>		
Uhuru	12.9	
Usoga	8.5	
Kavirondo	0.5	
Homa	0.5	
Tilapia	0.5	
Alestes	0.5	
Peeda	0.5	
Kyaka	0.5	
Kathleen	0.1	
	<hr/>	
		24.5
<u>Tanzania</u>		
Victoria	33.3	
Nyangumi	19.0	
Umoja	12.9	
Liemba	4.1	
Ngombe	0.7	
Buganda	0.5	
Buvuma	0.5	
Wimbi	0.5	
Maindi	0.5	
Clarius	0.4	
	<hr/>	
		72.4
<u>Uganda</u>		
Barbus	1.5	
Pamba	0.4	
	<hr/>	
Other marine equipment		1.9 11.3
Total vessels and marine equipment (paragraph 65)		<hr/> <hr/> 110.1



Capital work in progress Shs 133.8 million

69 Capital work in progress at 30 June 1977 may be analysed as follows:-

	Shs.m
Kenya	80.4
Tanzania	40.8
Uganda	12.6
	<u>133.8</u>

These figures were obtained from the engineering departments in each of the Partner States; no reliance was placed on the computerised capital works report produced by the accounts department of Kenya Railways because the following deficiencies were found:-

- (a) delays in issuing completion reports - instances were noted where there had been delays of up to 4 years;
- (b) failure to action completion reports; and
- (c) negative balances on the work in progress tabulations.

70 Where actual expenditure to 30 June 1977 was not available it was estimated by reference to the sanctioned amount and the percentage completion reports. In the Mediator's opinion the overall effect of using estimates in place of actual figures is insignificant.

71 Included in the figures for Kenya is an amount of Shs 0.9 million in respect of a Hollam Grader and 2 D8 Caterpillars which were bought for Uganda but are held in Nairobi. As with the 8 locomotives referred to in paragraph 50, Kenya has been charged with the value of these 3 assets.

Stocks Shs 305.0 million

72 Despite the Mediator's request, no physical stocktake was held in Kenya and the figure for stocks in Kenya at 30 June 1977 (Shs 233.7 million) is based on the balance at that date per the supplies department statement for the month of June 1977. This amount was accepted as no information has been received from the accounts department regarding stores in Kenya.

73 The 1977 figure of Shs 63.4 million for Tanzania was provided by the accounts department of Tanzania Railways and is based on a physical inventory taken at 31 July 1977 which was adjusted for July movements to give a figure at 30 June 1977.

74 A physical stock count was carried out of all items held in Kampala in June 1978; this covered the majority of stocks held in Uganda. In the opinion of the chief accountant of Uganda Railways the level of stocks at 30 June 1977 was much the same and, accordingly, the Mediator considers it reasonable to include as stocks in Uganda at 30 June 1977, the amount physically counted at June 1978 together with the computer balances at December 1977 for those categories of stock which were not physically counted. The amount in question is Shs 7.9 million.

75 The provision against stores in Kenya and Uganda was the same as that which was included unaltered in the audited accounts of Railways for several years. A provision of Shs 11.7 million was calculated by the accounts department of Tanzania Railways to be required in respect of obsolete and excess stores and the value of stores in Tanzania has been reduced by this amount.

76 Because of the inaccuracy of the stock records and the absence of a physical count in Kenya, the Mediator sought advice from international sources as to whether the figures for stores provided to him were reasonable bearing in mind the size, complexity and geographical location of Railways. On the basis of the advice so obtained the Mediator does not consider that any adjustment is required. If there is any understatement of stores, for example in respect of items issued to projects on site but not consumed by the division date, such items may be considered to be covered by the category of assets "miscellaneous items" (see paragraphs 313 to 314 of the Report).

Debtors Shs 149.9 million

77 A detailed analysis of debtors at 30 June 1977 is set out below:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Traffic account	76.5	59.0	9.5	8.0
Workshop suspense account	1.4	1.4	-	-
Advances to staff	29.8	23.8	1.8	4.2
Reimbursement of losses	16.8	-	16.1	0.7
Cash covers	21.1	-	21.1	-
Construction plant awaiting disposal	4.1	4.1	-	-
Miscellaneous	0.2	0.2	-	-
	<u>149.9</u>	<u>88.5</u>	<u>48.5</u>	<u>12.9</u>

Debtors have been allocated to the Partner State in which the debt is expected to be collected.

Cash and bank balances Shs 99.4 million

78 Cash and bank balances at 30 June 1977 were as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Bank accounts	82.7	49.6	32.4	0.7
Crown Agents	(6.6)	3.1	1.5	(11.2)
Sinking fund proceeds	23.3	23.3	-	-
	<u>99.4</u>	<u>76.0</u>	<u>33.9</u>	<u>(10.5)</u>

79 At the time of the fact-gathering exercise Kenya Railways did not provide information on bank balances in Kenya after 30 June 1976. The Mediator has estimated them to be Shs 50 million, at 30 June 1977 (excluding the headquarters' overdraft), based on the balances from 31 January 1975 to 30 June 1976 which varied from Shs 36.0 million to Shs 70.0 million.

80 In its memorandum to the Mediator dated September 1980, Kenya called for a revision to the Mediator's figures for cash in Kenya stating that

the correct position was as follows:-

	Shs.m	
Industrial areas account	18.9	
Kenya region account No 240-790-082	(8.8)	overdrawn
	<u>10.1</u>	
	<u><u>10.1</u></u>	

No evidence was produced to support these figures.

81 The matter was further discussed at the fact-finding meetings held in July 1981 and, subsequently the Kenya Government provided a considerable amount of additional information on this problem, which the Mediator has appreciated. Unfortunately, the study of this information has been greatly hampered by the near-impossibility of reading the photocopied documents. The information is also incomplete. There is, for example, no indication for what purposes the disbursements from the bank accounts were used; also, there is reference to a "savings account", but no details of the funds held in this account are given. As he has previously pointed out, the Mediator could consider a modification of his figures only, if full information were provided regarding movements on all bank accounts in Kenya region in the period 1 January 1975 to 30 June 1977. He does not, on present documentation, feel justified in altering his figures which stand at Shs 50 million as against Kenya's figure of Shs 10 million.

82 The balances with the Crown Agents at 30 June 1977 were confirmed direct with them.

83 The bank balances have been allocated to the country in which the bank account was located. The above accounts with the Crown Agents are regional and relate only to the Partner State to which they have been allocated; in addition there was a general account between EA Railways and the Crown Agents, the proposed treatment of which is described in paragraph 92

84 In May 1975 certain sinking fund investments were redeemed by the Crown Agents in London and the proceeds remitted to Nairobi as follows:-

	Shs.m
9 May 1975	5.0
23 May 1975	18.3
	<u>23.3</u>

These amounts were paid into EA Railways' headquarters' bank account. Although the management of Kenya Railways states that the funds were utilised towards the payment of outstanding headquarters' bills, no conclusive evidence has been provided to the Mediator concerning these liabilities or the manner in which they were discharged and, in the general uncertainty surrounding cash balances in Kenya, he proposes to include this amount in the net assets of EA Railways in Kenya.

Current liabilities Shs 239.4 million

85 A detailed analysis of current liabilities at 30 June 1977 is set out below:-

	<u>Total</u>	<u>Kenya and</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs.m	headquarters	Shs.m	Shs.m
		Shs.m	Shs.m	Shs.m
Kenya Government industrial areas account	32.6	32.6	-	-
EA Harbours current account 6121	14.6	1.2	13.4	-
Loan interest and redemption charges accrued	5.3	3.0	1.8	0.5
Deposits	5.6	3.1	2.5	-
Stores and equipment	6.7	(0.4)	7.1	-
Provident fund	0.3	0.1	0.1	0.1
Demands payable	113.4	112.2	-	1.2
Government	60.7	-	60.4	0.3
Miscellaneous	0.2	0.2	-	-
	<u>239.4</u>	<u>152.0</u>	<u>85.3</u>	<u>2.1</u>

86 Current liabilities have been allocated to the country where the liability is expected to be settled. In the case of the EA Harbours' current account this has been deemed to be the country in which EA Harbours performed the service.

87 The liability to the Tanzanian Government is in respect of various costs of EA Railways met by them as follows:-

	Shs.m
Payments to Crown Agents	60.0
Salary payments	0.4
	<u>60.4</u>

Loan capital Shs 1,208.1 million

88 The loans of EA Railways and those other liabilities which the Mediator proposes to assign separately at 30 June 1977 are as follows:-

	Shs.m
<u>Loans</u>	
East African loan stocks (net of sinking funds of Shs 65.5 million)	257.5
IBRD	516.5
British Government	94.4
West German Government	42.0
CIDA	109.5
East African Governments	150.0
	<u>1,169.9</u>
 <u>Other liabilities</u>	
Overdraft with Crown Agents	32.8
Loan interest	5.4
	<u>1,208.1</u>

Proposals for the division of the loans, and other liabilities listed above, among the Partner States are set out in Part VIII of the Report.

89 Details of the loans, including details as to how each has been guaranteed by the Partner States, are given in Part IV of this Appendix. The balances at 30 June 1977 were agreed either direct with the agencies concerned or by reference to correspondence or statements from them on the EA Railways' files.

90 The balance of principal outstanding, as confirmed by Kreditanstalt, on West German Loan AL60 differs from the schedule of planned repayments by an amount of DM127,775 (Shs 0.5 million). The Mediator's consultants were unable to discover how this difference has arisen; the Mediator has included in loan liabilities the amount of Shs 30.8 million confirmed direct by Kreditanstalt.

91 The amount of Shs 150 million advanced by East African Governments represents Shs 50 million advanced to EA Railways' headquarters by each country during 1974 and 1975. No interest has been assumed to have accrued on these balances as, according to EA Railways, no interest rate was agreed.

Overdraft with Crown Agents Shs 32.8 million

92 In 1976 the three Partner States agreed with the Crown Agents to divide the overdraft amongst themselves in the proportion in which they were repaying other overseas debts. Since then Kenya has repaid her share but at 30 June 1977 the other countries had a balance outstanding. The Mediator proposes no alteration to the arrangement between the Crown Agents and the Partner States and has divided the overdraft at 30 June 1977 between Tanzania and Uganda.

Loan interest Shs 5.4 million

93 The Mediator's proposals for the division of loans, including accrued loan interest are set out in Part VIII of the Report.

Sinking funds Shs 65.5 million

94 The value of the sinking fund investments, amounting to Shs 65.5 million at 30 June 1977, has been deducted from the balance of loan stocks outstanding. The balances of the sinking funds' overseas investments have been confirmed with the Crown Agents. A schedule of the investments forms Part V of this Appendix.

EAST AFRICAN RAILWAYS CORPORATION

III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

	<u>Life</u>	<u>Residual value not depreciated as percentage of replacement value</u>		
	Years	%		Years
Earthworks (Note)	-	100	after	nil
<b>Buildings</b>				
Structures				
Offices	75	20	after	60
Staff quarters	50	20	after	40
Finishes and Fittings	20	nil	after	20
Plant and Equipment	30	nil	after	30
Office Furniture and Equipment	2	50	after	1
Bridges	75	20	after	60
Permanent Way	50	20	after	40
Locomotives	25	10	after	22½
Rolling Stock	25-35	10	after	31½
<b>Plant, Machinery and Vehicles</b>				
Water Supply System	50	20	after	40
Plant and Equipment	30	nil	after	30
Vehicles	5	10	after	5
<b>Marine</b>				
Lakes and River Piers	75	20	after	60
Ships	25	10	after	22½
Telegraph and Signalling	NA	10 residual value only given		

Note: The value of earthworks was reduced to take account of the effects of heavy rainfall on certain sectors (paragraph 42).



Part IV

<u>Description and amount of loan</u>	<u>Guarantees</u>	<u>General purpose of loan</u>
<u>East African Loan Stocks</u>		
1954 £Stg.5,000,000	Guaranteed severally by Kenya, Tanzania and Uganda.	
1956 £Stg.3,500,000		
1957 £Stg.8,500,000		
1975 £Stg.5,911,458		
1970 K£ 1,000,000		
1971 K£ 3,400,000		
<u>International Agency</u>		
<u>Loans</u>		
IBRD Loan No.428 EA (1965)\$US32,400,000 in various currencies.	Guaranteed jointly and severally by Kenya, Tanzania and Uganda	Capital development programme.
IBRD Loan no.674 EA (1970) \$US.42,400,000 in various currencies	Guaranteed jointly and severally by Kenya, Tanzania and Uganda	Capital development programme

<u>Description and amount of loan</u>	<u>ig</u>	<u>Guarantees</u>	<u>General purpose of loan</u>
<u>Government Loans</u>			
<u>British Government</u> 1			
1961 £Stg.7.5m Exch	7		Rolling stock and general improvements
1965 £Stg.3.15m ECGI	1	Guaranteed by Governments of Kenya, Tanzania and Uganda jointly and severally under the Tanzania, Uganda and Kenya (UK-EA Common Services Credit Agreement 1965) guarantee 1965.	Diesel locomotives
1970 £Stg.1.0m	9		Diesel locomotives
1970 £Stg.1.0m Commercial Credit	1		Diesel locomotives
	<u>8</u>		
<u>Federal Government</u> 0			
1964 AL 634 DM 8,969		Loan made to Tanzania and re-lent to East African Community	Construction of railway line to Mikumi and Kidatu
1971 AL 60 DM 8,600,9		Guaranteed jointly and severally by the Governments of Kenya, Tanzania and Uganda.	Diesel locomotives and spare parts.

<u>Description and amount of loan</u>	<u>al nce nding</u>	<u>Guarantees</u>	<u>General purpose of loan</u>
<u>East African Loans</u>			
Kenya, Tanzania and Uganda	0,000	-	Working Capital
<u>Government of Canada</u>			
Acting through the Canadian International Development Agency 1970 C\$ 14,000,000	6,234	Loan to EAC and re-lent by EAC to Railways	
	<u>2,741</u>		
	<u>7,000</u>		
	<u>5,741</u>		

EAST AFRICAN RAILWAYS CORPORATION

V SINKING FUND INVESTMENTS AT 30 JUNE 1977

£8.5m 5½% 1977/83

	<u>Nominal Value</u>	<u>Market Value</u>		<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	£	£	Shs.m	Shs.m	Shs.m	Shs.m
Deposits at call	51,582.58	51,583	0.8	-	-	0.8
<u>UK Govt. Guaranteed Stocks</u>						
Treasury 10½% 1978	133,587.63	135,387	1.9	-	-	1.9
Treasury 11½% 1979	698,815.18	741,164	10.6	-	10.6	-
Treasury 10½% 1979	43,196.54	44,482	0.6	-	-	0.6
Treasury 9% Conv. 1980	29,436.16	29,859	0.4	-	-	0.4
Treasury 9½% 1981	80,451.37	81,179	1.2	-	-	1.2
Treasury 14% 1982	269,459.63	312,077	4.4	-	-	4.4
Treasury 12% 1983	226,796.00	242,672	3.5	-	3.5	-
<u>Commonwealth &amp; Foreign</u>						
<u>Australian &amp; New Zealand</u>						
Australia 5½% 1977/80	37,607.78	32,719	0.5 (H)	-	-	-
New Zealand 6% 1976/80	190,060.62	169,154	2.5 (H)	-	-	-
Australia 6% 1977/80	99,378.45	84,472	1.2 (H)	-	-	-
Australia 7% 1979/81	23,597.11	20,765	0.3 (H)	-	-	-
Australia 7½% 1981/82	403,870.59	323,096	4.6	4.6	-	-
New Zealand 5½% 1978/82	11,556.68	8,668	0.1 (H)	-	-	-
Australia 6% 1981/83	94,227.56	71,613	1.0	-	1.0	-
<u>Domiciled with Crown Agents</u>						
British Guiana 3% 1975/80	27,801.59	21,685	0.3 (H)	-	-	-
Tanganyika 5½% 1978/82	58,462.52	43,262	0.6	-	-	0.6
Railways 5½% 1977/83	1,507,143.82	1,039,929	14.9	14.9	-	-
British Guiana 5% 1980/85	28,137.48	16,882	0.3	0.3	-	-
<u>Others</u>						
Malaysia 7½% 1978/82	50,000.00	37,500	0.5 (H)	-	-	-
Bechuanaland 6½% ICL 1983	42,725.86	30,335	0.4 (H)	-	-	-
Basutoland 6½% ICL 1983	45,387.16	30,608	0.4 (H)	-	-	-
	<u>£4,153,282.31</u>	<u>£3,569,091</u>	<u>51.0</u>	<u>19.8</u>	<u>15.1</u>	<u>9.9</u>

Note: EA Railways' share of the above investments is 87.797%, equivalent at 30 June 1977 to Shs 44.8 million. Investments representing this amount have been divided between the Partner States (Shs 19.8 million to Kenya, Shs 15.1 million to Tanzania and Shs 9.9 million to Uganda) in the same proportion as the related loan liability has been divided (see Appendix "P"). The balance of the above investments, amounting to Shs 6.2 million and designated above, by "(H)" has been divided as part of the division of EA Harbours assets and liabilities

EAST AFRICAN RAILWAYS CORPORATION

Sinking Fund Investments at 30th June 1977

£3.5m 5½% 1980/84

	<u>Nominal Value</u>	<u>Market Value</u>		<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	£	£	Shs.m	Shs.m	Shs.m	Shs.m
Deposits at call	43,540.00	43,540	0.6	0.6	-	-
<u>UK Govt. Guaranteed Stocks</u>						
Treasury 11½% 1979	323,031.73	342,608	4.9	-	4.9	-
Treasury 10½% 1979	13,871.44	14,284	0.2(H)	-	-	-
Funding 5½% Loan 1978/80	3,769.71	3,533	0.1	-	0.1	-
Treasury 9½% 1981	19,214.98	19,389	0.3	-	-	0.3
Treasury 14% 1982	81,321.35	94,184	1.3	1.3	-	-
Treasury 12% 1983	250,788.05	268,343	3.9	-	-	3.9
Treasury 7½% 1985/88	16,578.92	13,180	0.2	0.2	-	-

Commonwealth & Foreign

Australian & New Zealand

New Zealand 6% 1976/80	50,000.00	44,500	0.6(H)	-	-	-
Australia 6% 1977/80	100,670.10	85,570	1.2(H)	-	-	-
Australia 7% 1979/81	25,000.00	22,000	0.3(H)	-	-	-
Australia 5½% 1981/82	95,505.94	76,405	1.1	-	1.1	-
New Zealand 3½% 1981/84	881.36	626	-	-	-	-
New Zealand 7½% 1983/86	10,335.03	7,751	0.1	0.1	-	-

Domiciled with Crown Agents

British Guiana 3% 1975/80	50,000.00	39,000	0.6(H)	-	-	-
EAHC 5½% 1980/84	670,394.04	429,052	6.1	6.1	-	-
British Guiana 5% 1980/85	29,663.27	17,798	0.3(H)	-	-	-

Others

Bechuanaland 6½% ICL 1983	41,320.26	29,337	0.4	-	0.4	-
Basutoland 6½% ICL 1983	17,126.67	11,550	0.2	0.2	-	-
	<u>£1,843,012.85</u>	<u>£1,662,650</u>	<u>22.4</u>	<u>8.5</u>	<u>6.5</u>	<u>4.2</u>

Note: EA Railways' share of the above sinking fund is 85.714%, equivalent at 30 June 1977 to Shs 19.2 million. Investments representing this amount have been divided between the Partner States (Shs 8.5 million to Kenya, Shs 6.5 million to Tanzania and Shs 4.2 million to Uganda) in the same proportion as the related loan liability has been divided (see Appendix "P"). The balance of the above investments, amounting to Shs 3.2 million and designated above by "(H)" has been divided as part of the division of EA Harbours' assets and liabilities (Appendix "G", Part V/2).

EAST AFRICAN RAILWAYS CORPORATION

Sinking Fund Investments at 30th June 1977

Analysis of Local Sinking Funds

	<u>Nominal Value</u> Shs.	<u>Market Value</u>			
		<u>Total</u> Shs'000	<u>Kenya</u> Shs'000	<u>Tanzania</u> Shs'000	<u>Uganda</u> Shs'000
<u>K£1.0m 6½% 1990</u>					
Kenya 6% 1987	153,200	128	128	-	-
Railways 6½% 1990	1,200	1	1	-	-
Kenya 6% 1992	110,193	85	85	-	-
Tanzania 6½% 1984	117,900	115	-	115	-
Tanzania 6½% 1985	102,100	99	-	99	-
Uganda 6½% 1987	309,300	274	-	-	274
	<u>793,893</u>	<u>702</u>	<u>214</u>	<u>214</u>	<u>274</u>
<u>K£3.4m 6½% 1986</u>					
Kenya 6% 1987	191,400	160	160	-	-
Kenya 6% 1992	89,807	69	69	-	-
Tanzania 6½% 1984	288,800	282	-	282	-
Tanzania 6½% 1985	82,500	80	-	80	-
Uganda 6½% 1987	302,800	268	-	-	268
	<u>955,307</u>	<u>859</u>	<u>229</u>	<u>362</u>	<u>268</u>

Summary of Sinking Fund Investments

	<u>Market Value</u> Shs.m
£8,500,000 1977/83 5½%	44.8
£3,500,000 1980/84 5½%	19.2
K£1,000,000 1990 6½%	0.7
K£3,400,000 1986 6½%	0.8
Total (Paragraph 94)	<u>65.5</u>



APPENDIX F - EAST AFRICAN POSTS AND TELECOMMUNICATIONS CORPORATION

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CONTENTS

	<u>Paragraphs</u>
I INTRODUCTION	1 - 15
History	1 - 4
Operations	5
History of the break-up	6 - 7
State of the accounting records	8 - 12
State of the financial accounts	13 - 15
II ASSETS AND LIABILITIES	16 - 44
Fixed assets	17 - 25
Ascertainment of fixed assets	18
Valuation of fixed assets	19 - 25
Buildings	20 - 22
Roads	23
Plant	24
Vehicles	25
Capital work-in progress	26 - 28
Current assets	29 - 44
Stocks	30 - 36
General	30
Kenya region	31 - 33
Tanzania region	34
Uganda region	35 - 36
Debtors	37 - 40
Telephone and telegraph debtors	38
Staff debtors	39
Sundry debtors	40
Cash and bank balances	41 - 44
Creditors	45 - 46
Claim by Zanzibar P&T	46
Loan capital	47
III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS	
IV DEPRECIATED REPLACEMENT VALUES OF PLANT	
V SCHEDULE OF EA P&T LOANS AT 31 DECEMBER 1976	
VI SINKING FUND INVESTMENTS AT 31 DECEMBER 1976	



EAST AFRICAN POSTS AND TELECOMMUNICATIONS CORPORATION

I INTRODUCTION

History

1 Postal and telegraph services were first established in Kenya, Uganda and Tanganyika in the 1890s, although their unification under one department was not completed until 1933.

2 During the period 1933 to 1948, financial control was vested in the hands of individual Governments, with the territorial legislative councils separately voting money for services in their own countries. Revenues were paid into the national treasuries.

3 Following the establishment of the East African High Commission on 1 January 1948, the Posts and Telegraph Department became, from 1 January 1949, a self-contained, self-financing service under the High Commission. This change was consolidated in the East African Posts and Telecommunications Administration Act, 1951. With the approach of independence for the three countries, the High Commission was abolished in December 1961 and the administration was taken over by the East African Common Services Organisation.

4 After the signing in June 1967 of the Treaty, the Administration changed on 1 December 1967, to a Corporation within the EAC and the assets and liabilities of the Administration were vested in the Corporation on 1 January 1968.

Operations

5 Under the terms of the Treaty, EA P&T had a monopoly right to supply and maintain postal, telephone, telex and radio communications within and between the three regions. EA P&T also had the responsibility for overseas mails; overseas telecommunications were handled through its subsidiary, EA Extelcoms, although certain links with Mozambique, Rwanda and

### History of the break-up

6 In 1971, in accordance with the Treaty, the Corporation's headquarters were situated in Kampala and each region had its regional headquarters. In 1973 the headquarters' accounting staff was split: some were located in Kampala and some in Nairobi. By the end of 1975, the Chairman, the Director-General, Assistant Director-General, Posts and the Assistant Director-General Telecommunications, together with many of the headquarters' senior accounting staff were located in Nairobi.

7 At about 1 January 1976, the regions went their own ways. The Corporation's headquarters had lost control and the regions were making their management decisions independently. New national corporations have been established in each of the former Partner States.

### State of the accounting records

8 During the period when the headquarters split and the EAC was nearing collapse, resulting in three more or less independent regions and a truncated headquarters, many of the accounting books and records were transported from one country to another. Some of these books and records disappeared in transit.

9 There was no effective system of internal control in the books and records of the Corporation. The books of the Corporation were not always properly kept and the balances in the books were almost never adequately reconciled to the assets in existence or to external records, with the result that the books and reality tended to part company. The failure to reconcile properly the balances of the books permitted the perpetuation and accumulation of errors, some of which date back to the late 1960s and early 1970s. Thus the books of the Corporation did not represent an entirely reliable source for the preparation of accounts.

10 Two areas for concern were the records for fixed assets and stores. No physical count of fixed assets was made. Plant was the largest of the Corporation's assets and yet there was no itemised plant register kept by the Corporation. The value of plant was supported by a register in which the total value was analysed into a number of broad classes of assets.

only the gross additions for each class for each year between 1949 and 1971 with no further detail. The plant register was maintained on an East African basis and gave no split for each region. Thus there was no way of reconciling the largest figure in the regions' balance sheets to the assets actually existing.

11 The stores' figure was computed in a different way in the balance sheet of each region:-

- (a) Kenya had used a figure drawn from the computer records as there was no physical count of stores. However the control of documents fed into the computer and the reprocessing of documents rejected by the computer was inadequate. There was no control over the cut-off of information at 31 December 1976 and the computer figure represented a figure at no particular date with several years' uncorrected errors. Kenya later produced a manual valuation based on a manual system of recording stores' quantities multiplied by the computer prices, but in the process left some items out.
- (b) Tanzania rejected the computer print-out of stores dated 31 December 1976 and informed WG2 that they used a figure based on a manual system for quantities multiplied by computer prices though they were unable to find the working papers on which the valuation was made. They have since reconstructed their valuation but in reconstructing did not use the correct prices.
- (c) Uganda also rejected the computer print-out and used the results of a stocktake on 31 December 1976 multiplied by the latest Ugandan invoice price. This would normally be a good method but in this instance gave a figure that was not comparable with the other two Partner States, whose store figures were based on the computer price, and so Uganda agreed to recompute their lists using computer prices, but these have not been forthcoming. These are just two examples of the deficiencies in the bookkeeping of the Corporation; there were many others of similar nature.

12 WG2 gained the impression that many of the accounting staff were not fully conversant with the systems they were meant to control. As a result, a critical opinion of the quality of the financial information would usually be formed only at the time of an audit.

#### State of the financial accounts

13 The last financial accounts of EA P&T which were audited were the 1975 accounts. These accounts were heavily qualified by the EAC Auditor-General, in particular in respect of the stores' figures and the fact that certain important suspense accounts had not been analysed and reconciled for a number of years.

14 Kenya P&T, Tanzania P&T and Uganda P&T each produced a set of accounts for their respective region for the year ended 31 December 1976. None of these three separate sets of accounts had been audited. There was a possibility that some assets and liabilities had not been included in the accounts of any of the regions; this was particularly likely with some of the headquarters' assets and liabilities. In the absence of any later accounts, the Mediator accepted the date of 31 December 1976 as the division date of EA P&T.

15 Kenya region had no opening trial balance and consequently the general reserve became the balancing figure. Tanzania region lost many of their working papers and balanced their trial balance by using the general reserve as the balancing figure. Uganda region had an opening trial balance and a closing trial balance, both of which balanced but both of which left out foreign accounts and investments.

II     ASSETS AND LIABILITIES

16     The estimated assets and liabilities of EA P&T as revalued at 31 December 1976 by the Mediator's technical experts are set out below. The figures are based on the information obtained by the Mediator's consultants and technical experts, including the information which came to light as a result of the fact-finding meetings held in Nairobi in May 1979 and July 1981. The valuation and division of net assets is in accordance with the methodology set out in Part IV of the Report:-

	<u>Paragraphs</u>	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
		Shs.m	Shs.m	Shs.m	Shs.m
Fixed assets (at current value)	17 - 25	1,069.8	511.6	354.3	203.9
Capital work-in-progress	26 - 28	182.0	57.6	51.4	73.0
Current assets	29 - 44	579.7	280.2	162.4	137.1
Current liabilities	45 - 46	<u>(204.0)</u>	<u>(120.2)</u>	<u>(36.8)</u>	<u>(47.0)</u>
Net assets		<u>1,627.5</u>	<u>729.2</u>	<u>531.3</u>	<u>367.0</u>
			44.8%	32.6%	22.6%

Financed by:

Loan capital (net of sinking funds) 47	491.3
Reserves	<u>1,136.2</u>
	<u>1,627.5</u>

Notes:

- 1     For the purposes of this balance sheet the Mediator has included in loan capital the headquarters' overdraft with the Crown Agents and certain overseas bank accounts (paragraph 47).
  
- 2     A separate assignment of the assets and liabilities of EA Extelcoms is made in this report (Appendix I). The Mediator considers it inappropriate, therefore, to include the investment in EA Extelcoms in EA P&T's assets and liabilities.

Fixed assets Shs. 1,069.8 million

17 Fixed assets may be analysed as follows:-

	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs.m	Shs.m	Shs.m	Shs.m
Buildings	384.7	185.1	147.5	52.1
Roads	19.5	7.1	6.6	5.8
Plant and equipment	636.8	306.5	190.5	139.8
Vehicles	<u>28.8</u>	<u>12.9</u>	<u>9.7</u>	<u>6.2</u>
	<u>1,069.8</u>	<u>511.6</u>	<u>354.3</u>	<u>203.9</u>
		47.8%	33.1%	19.1%

Ascertainment of fixed assets

18 A comprehensive list of buildings owned by the Corporation was provided to WG2. However, there was no itemised plant register kept by the Corporation. The value of plant was supported by a register in which the total value was analysed into a number of broad classes of equipment. The register had not been written up since 31 December 1971, and it showed only the gross additions for each class for each year between 1949 and 1971, with no further detail. The plant register was maintained on an East African basis and gave no details of the plant in each region. The lists which the technical consultants used to value the plant and vehicles were extracted from the engineering records of the three regions.

Valuation of fixed assets

19 Fixed assets have been valued at depreciated replacement cost by the Mediator's technical experts in accordance with the principles set out in paragraphs 413 to 430 of this Report. A schedule of the depreciation rates considered appropriate by the technical experts is set out as Part III of this Appendix.

Buildings Shs. 384.7 million

20 Buildings were valued on the basis of local construction costs. In accordance with the Mediator's instructions, construction cost rates were derived by the technical experts on the basis of 1972 rates in each Partner State, increased to 31 December 1976 in line with inflation indices obtained from the Kenya Bureau of Statistics. The Microwave Station in Tanzania and all buildings constructed in 1975 and 1976 were valued on the basis of their actual cost, inflated to the division date by the Kenyan rate of inflation.

21 Allowance was made in the value of buildings to cover the general equipment associated with them - furniture, office equipment, plant such as lifts and air conditioning in office blocks, sliding doors and loading bays to transit sheds, pits in workshops, counters in post offices and all services. Special equipment, such as computers, stand-by generators and internal cranes, was valued separately. Car parks, landscaped areas and approach drives in the vicinity of buildings have been allowed for in calculating the overall rates used for valuation. Furniture and equipment owned but kept in rented offices has been included in the valuation.

22 The construction cost rates used to value the buildings at 31 December 1976 were as follows:-

	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs/m <sup>2</sup>	Shs/m <sup>2</sup>	Shs/m <sup>2</sup>
Head Post Office and Telephone House	2,525	-	-
Offices: large and medium post offices and telephone exchanges	2,074	2,228	2,835
Small post offices and telephone exchanges	1,769	2,228	1,890
VHF stations	3,355	2,970	2,740
Large and medium radio buildings	2,074	2,970	2,740
Small radio buildings	1,098	990	2,740
Workshops, depots and linesmans huts	1,098	990	1,890
Senior staff quarters	2,013	1,800	2,740
Junior staff quarters	1,342	1,170	1,890
Furniture	183	68	95

Roads Shs. 19.5 million

23 Gravel, earth or murram access roads to VHF stations which were owned by EA P&T were valued at full replacement price (as the technical experts consider that routine maintenance should ensure their continued existence) on the basis of cost information published by the Kenya Ministry of Works.

Plant and equipment Shs. 636.8 million

24 The replacement value of plant and equipment was ascertained either:-

- (a) from the original purchase price increased by an inflation factor to the division date; or
- (b) where the original indents were not available, from estimates of the FOB price on the world markets.

The same world prices were used irrespective of which Partner State the assets were situated in, and a common rate of exchange was used for the East African shilling. Depreciation was then applied on a straight-line basis down to a residual value, corresponding to one year's depreciation. A summary of the plant valuation forms Part IV of this Appendix.

Vehicles Shs. 28.8 million

25 The Corporation's normal accounting policy was to write off the cost of vehicles. The Mediator, however, considers that vehicles are assets which fall under his terms of reference and for which he should, therefore, make proposals for their equitable assignment amongst the Partner States. Accordingly, he has included them in his statement of fixed assets at the values assessed by his technical experts.



Capital work in progress Shs. 182.0 million

26 Capital work in progress may be analysed as follows:-

	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs.m	Shs.m	Shs.m	Shs.m
Buildings	113.2	31.7	42.6	38.9
Plant	<u>68.8</u>	<u>25.9</u>	<u>8.8</u>	<u>34.1</u>
	<u>182.0</u>	<u>57.6</u>	<u>51.4</u>	<u>73.0</u>

27 In the EA P&T accounts for the year ended 31 December 1975 work in progress in respect of both buildings and plant was included under assets under construction. Kenya did not include plant work in progress in capital work in progress, so the Mediator's consultants made adjustments to provide comparable figures calculated on the same basis.

28 As stores pricing had a long history of mistakes and the stores records are to a large extent used in the computation of plant work in progress, these figures may be inaccurate in places.

Current assets Shs. 579.7 million

29 Current assets may be analysed as follows:-

	<u>Paragraphs</u>	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
		Shs.m	Shs.m	Shs.m	Shs.m
Stocks	30 - 36	149.5	84.4	26.8	38.3
Debtors	37 - 40	286.1	107.7	87.8	90.6
Cash and bank balances	41 - 44	<u>144.1</u>	<u>88.1</u>	<u>47.8</u>	<u>8.2</u>
		<u>579.7</u>	<u>280.2</u>	<u>162.4</u>	<u>137.1</u>

Stocks Shs. 149.5 millionGeneral

30 Accounting for stocks had a long history of problems in EA P&T. The 1973 Auditor-General's long form report contained serious criticisms of the standard of stores accounting and the 1974 and 1975 published accounts were qualified by the Auditor-General in respect of stores.

Kenya region

31 Kenya region has included in its draft balance sheet as at 31 December 1976 the computer stores figure. The following represents a brief summary of some of the procedures in the computer system in which there were significant deficiencies:-

- (a) control over the cut-off of information fed into the computer;
- (b) control over the accuracy of input to the computer, for example, WG2 noted entries input for the wrong region;
- (c) control over the input rejected by the computer;
- (d) checking actual stock to computer figures; and
- (e) critical examination of the results of the computer print-out by the stores staff. As a consequence many errors were never detected and consequently never corrected. During the fact-gathering exercise, WG2 found several errors dating from 1969-1973 which still had not been corrected by June 1978. Few corrections were made even for errors that were found, partly because there was a history of error corrections that succeeded only in compounding the error.

The Mediator's consultants concluded that there was a fundamental breakdown of the stores computer system and that the computer figures for quantities were an unsatisfactory basis for computation of the value of stores at 31 December 1976.

32 There was no physical stocktake at or near 31 December 1976. Kenya region keep a manual system of stores quantities on ledger cards. In view of the unacceptability of the computer quantities, the consultants requested Kenya region to list out the ledger card quantities and value them with the computer prices. In this valuation, items for which there were no computer prices were included at nil value. The value of stores was increased by Shs. 2.5 million in respect of these items.

33 The stores' figures include stores' debtors. Because of the inaccurate counting for these items, the Mediator's consultants estimated an amount of Shs. 6 million in respect of stores' debtors which they and the officials of Kenya region considered reasonable.

#### Tanzania region

34 The stores' figures for Tanzania region were based on a valuation of the quantities shown on the bin cards, though the Mediator's consultants were unable to check this valuation as the working papers had been mislaid. The nearest stocktake to the cut-off date was carried out at the end of June 1976. The consultants found the results reliable. Tanzania region calculated a specific obsolescence provision of Shs. 1.1 million but the Mediator has not deducted it from the total stores' figure shown in the draft balance sheet as Kenya and Uganda regions have not arrived at similar specific provisions.

#### Uganda region

35 Uganda region ascertained the value of stores using the results of the stocktake which took place between 12 January 1977 and 31 March 1977, valued at the latest Ugandan invoice price. This was not usual EA P&T accounting practice nor the lower of cost and net realisable value; however the Mediator's consultants considered that the Uganda region prices were likely to be very closely approximated to those used on the computer. A minority of the stores purchased in Uganda have probably been marginally overstated in comparison to those purchased in the Kenya and Tanzania regions.

36 Uganda region did not include the value of the planned works items in its draft balance sheet on the grounds that many of the items were old and had lost their labels. In order to be consistent in treatment in all three regions, the Mediator has included these items as follows:-

	Shs.m
Non-planned works items	21.2
Planned works items	10.5
Stores in transit	<u>6.6</u>
	<u>38.3</u>

Stores in transit destined for Uganda amounted to Shs. 13.3 million. However, as Uganda said that these stores were never received and as Kenya had no knowledge of them, the Mediator held it to be most equitable to charge half the value to Kenya and half to Uganda.

Debtors Shs. 286.1 million

37 A summary of debtors is as follows:-

	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs.m	Shs.m	Shs.m	Shs.m
Telephone and telegraph	246.2	91.2	77.7	77.3
Staff	12.9	2.4	-	10.5
Pensions and provident fund	0.9	0.6	-	0.3
Money orders	3.6	2.5	-	1.1
Repayable works	6.2	6.2	-	-
Uganda government development levy	0.2	-	-	0.2
Sundry	<u>16.1</u>	<u>4.8</u>	<u>10.1</u>	<u>1.2</u>
	<u>286.1</u>	<u>107.7</u>	<u>87.8</u>	<u>90.6</u>

The telephone and telegraph debtors are net of provisions for bad debts.

Telephone and Telegraph debtors Shs. 246.2 million

38

- (a) Kenya region: there was a difference of about Shs. 15 million between the manual reconciliation figure of total amounts outstanding at the end of the month (used in this Report) and the computer listing of debtors and it appeared that no attempt had been made since the system was installed in the late 1960s to reconcile the manual reconciliation and the computer listing. The Mediator's consultants were not able to ascertain what the difference represents but suggested that it might be uncollectable debts.
- (b) Tanzania region: there was a small difference between the balance in the accounts and the balance on the computer listing for which no explanation could be obtained. No manual reconciliations had been prepared for these accounts.
- (c) Uganda region: Uganda region informed the Mediator's consultants that their debtors' figures had been reconciled.

Staff debtors Shs. 12.9 million

39 The records for staff debtors are incomplete and not fully accurate. In view of this it will not be easy to recover all of these debts, especially as there have been considerable staff changes. The Mediator does not, however, intend to make a provision as he considers that every effort should be made to collect these debts. Tanzania region was unable to analyse "sundry debtors" and the Mediator is, therefore, unaware as to whether staff debtors are included in this figure. Tanzania should also make every effort to collect all debts due from staff.

Sundry debtors

40 Sundry debtors in Kenya are made up as follows:-

	Shs.m
Postal Co-op S&C	1.8
Savings banks	1.3
Government coast projects	0.4
Interest on current account	0.3
Sale of stores, drums etc	0.2
Postal (postage paid in cash for SB)	0.2
Vacation leave suspense	0.2
Miscellaneous advances	0.1
Other (less than Shs. 50,000)	<u>0.3</u>
	<u>4.8</u>

Tanzania region was unable to provide an analysis of "sundry debtors".

Cash and bank balances Shs. 144.1 million

41 The balance in Kenya (Shs. 88.1 million) includes an amount of Shs. 37.0 million which represents short term deposits with various finance institutions. The deposits are on a term of one year at varying rates of interest.

42 Included in the amount of Shs. 37 million was a balance of Shs. 25 million on an EA P&T account at Habib Bank. During the fact gathering exercise it had been alleged that an account had been opened in the names of the late Mr W Gitau and Mr B Mbela into which funds of Shs. 120 million belonging to EA P&T had been transferred without proper authorisation.

43 The Mediator's expert, who was instructed to clarify the matter, was given full access to the files and was able to carry out an unrestricted inspection of the records at the Habib Bank in Nairobi. He confirmed that there was no account in the joint names of Mr Gitau and Mr Mbela and that the only account containing EA P&T monies was the one referred to in the previous paragraph, which at 31 December 1976 contained Shs. 25 million and is included in the Mediator's figures.

44 The Mediator makes proposals for the allocation of the headquarters' bank accounts in Part VIII of the Report as these funds may be used only with the consent of the managing directors of all the national P&T corporations. However, in addition to these accounts, there are three others (and maybe more) which appear to have been handled by the headquarters and which have not been included in the Mediator's proposals because of lack of information. These are:-

- (a) an account with Mackinnon Mackenzie & Co in Bombay for paying pensioners resident in India;
- (b) an account with Mackinnon & Co in Karachi for paying pensioners resident in Pakistan and Bangladesh;
- (c) an account with Crown Agents in London called the EA P&T Suspense Account which at 30 June 1978 had a balance of £stg. 8,112.28. Payments from this account have been stopped by the Director-General. This account was opened to credit payments still being received and designated for EA P&T headquarters from other postal administrations. The account is accruing interest. However, it is not known when the account was opened and, if it was open at 31 December 1976, what the balance was at that date.

Creditors Shs. 204.0 million

45 Current liabilities comprise creditors and may be summarised as follows:-

	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs.m	Shs.m	Shs.m	Shs.m
Remittance services:				
Money orders	10.8	2.8	3.6	4.4
Postal orders/parcels	4.0	0.9	2.9	0.2
Loan charges	15.9	8.3	3.3	4.3
Conveyance of mail - local	0.8	0.2	0.6	-
- international	2.1	1.4	0.5	0.2
Stores' creditors	9.1	6.0	2.8	0.3
International services	106.2	70.6	19.3	16.3
Customs & Excise	13.4	13.2	0.1	0.1
Governments for stamp revenue	2.1	1.7	-	0.4
Savings bank	22.5	7.5	0.8	14.2
Deposits	7.6	2.3	1.6	3.7
Other sundry	<u>9.5</u>	<u>5.3</u>	<u>1.3</u>	<u>2.9</u>
	<u>204.0</u>	<u>120.2</u>	<u>36.8</u>	<u>47.0</u>

WG2 had insufficient information to satisfy themselves that the majority of the above creditors were correct, though the amount owing for international services (Shs. 106.2 million) has (after adjustment) been agreed with EA Extelcoms which is the creditor.

Claim by Zanzibar P&T Shs. 3.2 million

46 Tanzania claim that EA P&T owes the Government of Zanzibar Shs. 3.2 million in respect of assets taken over with effect from 1 January 1968 as a result of the amalgamation of EA P&T and Zanzibar Posts and Telecommunications. No evidence has been provided to the Mediator to substantiate this claim other than a reference to the Tanzania Act No 68 dated 16 January 1968. Since Zanzibar joined Tanganyika in 1964, the Mediator considers this claim to be an internal Tanzanian matter which does not impinge on the mediation proposals. He has, therefore, not included the amount in the above table.



Loan capital Shs. 491.3 million

47 The loans of EA P&T outstanding at 31 December 1976 and the other assets and liabilities, which the mediator proposes dealing with separately from the other net assets, are as follows:-

	Shs.m
<u>Loans:</u>	
East African loan stocks (net of sinking funds of Shs. 15.2 million)	40.5
IBRD	372.3
British Government	8.3
Zanzibar Government	13.5
C.Itoh Credit	26.5
Cable and Wireless	<u>6.7</u>
	467.8
<u>Other (assets)/liabilities:</u>	
Overdraft with Crown Agents	27.2
Bank accounts	<u>(3.7)</u>
	<u>491.3</u>

The terms of the loans including details as to how each has been guaranteed by the Partner States are set out in Part V of this Appendix. Proposals for the division of these loans (and the other assets and liabilities set out above) among the Partner States are set out in Part VIII of this Report. Details of sinking fund investments are set out in Part VI of this Appendix.

EAST AFRICAN POSTS AND TELECOMMUNICATIONS CORPORATION

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III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

	<u>Life</u>	<u>Residual value not depreciated as percentage of replacement value</u>		
	Years	%		Years
<b>Buildings</b>				
Structures				
Offices	50	20	after	40
Staff quarters	40	20	after	32
Operational buildings	40	nil	after	40
Finishes and fittings	20	nil	after	20
Plant and equipment	30	nil	after	30
Office furniture and equipment	2	50	after	1
Roads	-	100	after	nil
<b>Plant</b>				
Plant and tools	7 - 30	14 - 33	after	6 - 29
<b>Vehicles</b>	5	20	after	4

EAST AFRICAN POSTS AND TELECOMMUNICATIONS CORPORATION

IV DEPRECIATED REPLACEMENT VALUES OF PLANT

	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	Shs.m	Shs.m	Shs.m	Shs.m
Telephone exchanges	134.4	59.4	44.5	30.5
Local line distribution	109.6	59.4	28.3	21.9
Radio system	103.3	35.4	46.1	21.8
Subscriber equipment	91.6	49.8	25.7	16.1
Overhead line	32.3	10.3	4.0	18.0
Multiplex and VFT	30.1	11.9	7.8	10.4
Telex subscriber equipment	25.1	14.4	6.1	4.6
Power plant	23.2	12.0	8.2	3.0
Junction cable	18.0	9.0	4.0	5.0
Telex exchanges	9.2	4.9	2.8	1.5
Equipment in training schools and workshops	<u>60.0</u>	<u>40.0</u>	<u>13.0</u>	<u>7.0</u>
Total (appendix F, paragraph 17)	<u>636.8</u>	<u>306.5</u>	<u>190.5</u>	<u>139.8</u>

Note: The value of equipment in training schools and workshops, on which no information was supplied to the mediator, was estimated by the experts following consultation with Swiss postal authorities and the International Postal Union.

<u>Year</u>	<u>Type of Loan</u>	<u>s</u>	<u>Purpose of Loan</u>
<u>Partner State Loans</u>			
1949	Initial Conversion Lo		Value of the assets vested in the Corporation on 1st January 1949.
1951	Depreciation Loans		To finance capital expenditure mainly for replacement of assets vested on 1st January 1949.
<u>Stock Quoted in UK</u>			
1957	East African High Commission	by the ts of nzania a.	To finance development of telephone service and to provide post offices, telephone exchanges and other essential buildings in East Africa.
<u>British Government Lo.</u>			
1961	Exchequer		To finance capital expenditure on buildings and plant in East Africa during 1960 and 1961.
1963	Exchequer		To finance capital expenditure on buildings and plant in Kenya in 1963.
<u>World Bank Loans</u>			
1967	IBRD No. 483 EA	nd by anda ia.	To finance the 1966 to 1970 capital expenditure

<u>Year</u>	<u>Type of Loan</u>	<u>ees</u>	<u>Purpose of Loan</u>
<u>Partner State Loans:</u>			
1970	IBRD No. 675 E.A.	and ly by ernments a, a and	To finance the 1969 to 1972 capital expenditure programme.
1973	IBRD No. 914 E.A.	and ly by ernments a, a and	To finance the 1973 to 1975 phase of the 1973 to 1979 capital expenditure programme.
<u>Other Loans</u>			
1976	Zanzibar Government - No formal agreem details from "memorandum of understanding".		Development of tele- communication services in Zanzibar.
1976	C. Itoh Credit - Main contract	eed by ommerical Indemnity o bank.	Supply of Hitachi Crossbar telephone exchange equipment for Kenya in 1976.
	Instalment contrac		Instalment of Hitachi telephone exchange equipment.
	Instalment contrac		Instalment of Hitachi telephone exchange equipment.
1974	Cable & Wireless Loa		Purchase of remaining 40% shares in Extelcoms.

EAST AFRICAN POSTS AND TELECOMMUNICATIONS CORPORATION

VI SINKING FUND INVESTMENTS AT 31 DECEMBER 1976

£3.0m East African High Commission Stock 5 $\frac{3}{4}$ % 1983

	Market Value	Kenya	Tanzania	Uganda
	Shs.m	Shs.m	Shs.m	Shs.m
Treasury Stock 10 $\frac{1}{2}$ % 1979	0.8	-	-	0.8
Treasury Convertible Stock 9% 1980	1.4	1.4	-	-
Treasury 12% Loan 1983	2.4	-	-	2.4
Treasury 7 $\frac{3}{4}$ % Loan 1985/88	0.2	-	-	0.2
New Zealand 6% 1976/80	0.3	0.3	-	-
Australia 5 $\frac{1}{2}$ % Stock 1981/82	2.6	-	2.6	-
Jamaica 6% Stock 1977/82	0.5	-	0.5	-
EAHC (P&T) 5 $\frac{3}{4}$ % Stock 1977/83	4.6	4.6	-	-
Bechuanaland 6 $\frac{1}{2}$ % ICL 1983	0.1	0.1	-	-
Treasury 11 $\frac{1}{2}$ % 1979 A	0.1	-	0.1	-
Treasury 14% Stock 1982	1.6	-	1.6	-
Australia 6% Stock 1981/83	0.3	-	0.3	-
JMF (Joint Management Fund) Deposit	0.3	0.3	-	-
	<u>15.2</u>	<u>6.7</u>	<u>5.1</u>	<u>3.4</u>

APPENDIX "G" - EAST AFRICAN HARBOURS CORPORATION

CONTENTS

	<u>Paragraphs</u>
1 INTRODUCTION	1 - 16
Brief history of port development in East Africa	1 - 2
Legislative background	3 - 5
Structure of EA Harbours	6
History of the break-up of EA Harbours	7 - 8
Sources of information	9
Books and records	10 - 13
Financial accounts and audit	14 - 16
II ASSETS AND LIABILITIES	17 - 43
Fixed assets	18 - 31
Ascertainment of fixed assets	19 - 25
Belbase facilities	21 - 22
Tanzanian assets in Kenya	23 - 25
Valuation of fixed assets	26 - 30
Civil works	27 - 28
Mechanical plant	29 - 30
Division of fixed assets	31
Capital work in progress	32
Current assets	33 - 40
Stocks	34
Debtors	35 - 36
Balance with EA Cargo Handling	36
Cash and bank balances	37 - 40
Current liabilities	41
Loan capital	42 - 43
III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS	
IV SCHEDULE OF LOANS AT 30 JUNE 1977	
V SINKING FUND INVESTMENTS AT 30 JUNE 1977	

EAST AFRICAN HARBOURS CORPORATIONI INTRODUCTIONBrief history of port development in East Africa

1 At the present time there are the following main sea ports on the East African Coast:-

Kenya	:	Mombasa
Tanzania	:	Dar es Salaam
		Tanga
		Mtwara

There are also ten smaller ports on the Tanzanian coast and eight on Kenya's coast.

2 Prior to the formation of the EAC, Mombasa port handled the majority of sea-borne cargo in East Africa and had constructed thirteen deep water berths. Two more were added in 1976. Three deep water berths were constructed at Dar es Salaam in the mid-1950's. One was built on a site called Belbase which was owned by the Belgian Government and used by them to service their former colonies in Central Africa. The Government of Tanzania assumed ownership of the site in 1963. The Mediator understands that the site, which has been excluded from this Report, did not belong to EA Harbours. Further developments took place after 1969 and up to the date of collapse of the Community, a further eight deep water berths were added. Tanga Port is serviced solely by lighterage. One deep water berth was built at Mtwara in 1954 in connection with the British groundnut scheme.

Legislative background

3 The ports in Tanzania and Kenya were administered with their respective railways until the formation of the East African High Commission in 1948. The East African Railways and Harbours Administration was established by an Act passed in 1950 by the East African High Commission. The objective of the Act was to provide a co-ordinated and integrated system of transport and harbour facilities in East Africa. The Administration was dissolved in 1967 and separate Railways and Harbours corporations were formed as East African



corporations. The vesting date of the assets and liabilities in EA Harbours was 1 June 1969.

4 The East African Harbours Corporation Act, 1967 defined the Corporation's responsibilities as to maintain, operate, improve and regulate sea ports within the three Partner States; ports situated on inland waterways were excluded and were controlled by EA Railways.

5 All handling of cargo at the ports was carried out by EA Cargo Handling, a company incorporated in Kenya. The share capital was held 5/6ths by EA Harbours and 1/6th by EA Railways.

#### Structure of EA Harbours

6 EA Harbours' headquarters was located in Dar es Salaam and was responsible for monitoring the operating performance of the principal ports of Dar es Salaam and Mombasa. These two ports in turn directed and accounted for the smaller ports within their respective regions.

#### History of the break-up of EA Harbours

7 The day to day functions of the headquarters became more difficult with the cessation of fund remittances from 1975 to 1976, the decision by Kenya region to construct deep water berth 18 in 1975 with funds retained in Kenya and the gradual transfer of staff back to their respective Partner States from 1975 up to the closure of the headquarters on 12 March, 1977.

8 In Tanzania the Public Trustee was appointed by Court Order in April 1977 to take custody of the assets and liabilities of EA Harbours and EA Cargo Handling located in Tanzania. On 21 October 1977 the Tanzania Harbours Authority ("THA") came into existence. There was no formal legislative authority in Kenya between the date of the collapse of the Community and the formation of Kenya Ports Authority ("KPA"). This body was formed when the Kenya Ports Authority Act commenced on 20 January 1978.

### Sources of information

9 Information given in this Report is based upon data provided to the Mediator and his consultants by the management of KPA and THA. External confirmation of loan and investment balances was obtained where possible.

### Books and records

10 The ports of Dar es Salaam and Mombasa were self-accounting units. The smaller ports maintained revenue records and reported to their regional port accountants. The ports were responsible to the headquarters, which maintained personnel, fixed assets and loan records. The headquarters was responsible for producing consolidated accounts.

11 The accounting policies adopted in the preparation of the accounts were set out in a series of accounting circulars.

12 The Mombasa port return in respect of the year ended 31 December, 1976 was submitted to the headquarters on 23 June 1977 and lists of adjustments were sent to headquarters between 19 August 1977 and 14 September 1977. No further financial information on the affairs of Mombasa port was received at headquarters.

13 The standard of accounting at headquarters inevitably suffered as a result of the transfer of staff consequent upon the break-up of the Community. However, the Mediator's consultants considered that the standard of accounting was higher at EA Harbours than at most of the other Community institutions.

### Financial accounts and audit

14 The last set of EA Harbour's audited accounts were for the year ended 31 December 1975. The latest set of accounts available to the Mediator were those for the year ended 31 December 1976. These accounts are unaudited. The Auditor-General in Tanzania has attempted to carry out an audit of the Tanzania ports and headquarters. On 30 September 1978 the Senior Auditor in Dar es Salaam submitted a draft report to the Auditor-General detailing the various areas in which there existed significant deficiencies. The Auditor-General had no access to Mombasa records and largely because of this concluded that he was unable to produce an audit report on the accounts to 31 December 1976. No

audit has been carried out in Kenya on the Mombasa port returns for the year ended 31 December 1976.

15 The Mediator's consultants examined the accounts for the year ended 31 December 1976 and updated them for all major movements of which they had knowledge to 30 June 1977, the date which the Mediator has chosen as the division date.

16 There have been a number of changes in staffing at both ports and as a result it was difficult to obtain complete information or adequate explanations for certain transactions and balances. The areas involved are dealt with in Part II of this appendix.

II ASSETS AND LIABILITIES

17 The estimated assets and liabilities of EA Harbours as revalued at 30 June 1977 by the Mediator's technical experts are set out below. The figures are based on the information obtained by the Mediator's consultants and technical experts, including the information which came to light as a result of the fact-finding meetings held in Nairobi in May 1979 and July 1981. The valuation and division of the net assets has been made in accordance with the methodology set out in Part IV of the Report:-

	<u>Paragraph</u>	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m
Fixed assets (at current value)	18-31	1,804.6	1,054.8	749.8
Capital work in progress	32	493.8	205.1	288.7
Current assets	33-40	639.6	410.1	229.5
Current liabilities	41	(41.7)	(19.9)	(21.8)
Not assets		<u>2,896.3</u>	<u>1,650.1</u>	<u>1,246.2</u>
			57.0%	43.0%

Financed by

Loan capital (net of sinking funds)	42-43	851.0
Reserves		<u>2,045.3</u>
		<u>2,896.3</u>

Notes:

- 1 The Mediator has not taken into consideration in the above table an amount of Shs 0.1 million in respect of cash in Uganda.
- 2 The investment in EA Cargo Handling has been excluded from the above table as the Mediator is assigning the assets and liabilities of EA Cargo Handling separately (Appendix J).

Fixed Assets Shs 1,804.6 million

18 An analysis of fixed assets is set out below:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m
Buildings	435.3	226.1	209.2
Major port structures	825.9	528.9	297.0
Roads and paved areas	242.3	147.0	95.3
Services	0.9	0.7	0.2
Navigation aids	4.2	1.9	2.3
Cargo plant	296.0	150.2	145.8
	<u>1,804.6</u>	<u>1,054.8</u>	<u>749.8</u>

Ascertainment of fixed assets

19 Details of all fixed assets held by EA Harbours were maintained by headquarters in manually prepared registers. The Mediator's consultants relied upon these assets registers as they considered that they provided a reasonably accurate record of assets and the assets recorded therein are listed in sufficient detail to facilitate a valuation. Major items capitalised after 1974 were physically inspected and no discrepancy with the assets registers was found. The Office of the Public Trustee in Tanzania arranged to carry out a full physical count of fixed assets located in Tanzania, but this was not completed in time for the Mediator to take it into account. No similar count of fixed assets was conducted by the authorities in Kenya.

20 However, the Mediator's experts made several visits to Mombasa during September 1978 and were provided with an office by the Port Authority. Among the items physically inspected during these visits were the following:-

<u>Item number</u>	<u>Service date</u>	<u>Descriptions</u>
0900	1975	Berths 16 and 17
-	1976	Provision of tug berth
-	1976	Pavings berths 16 and 17
410290	1975	Stacking ground
0305	1975	Permanent way berths 16 and 17
47	1976	Extensions to main port office
4401693	1975	Steel stores
4401694	1976	Steel stores

<u>Item number</u>	<u>Service date</u>	<u>Descriptions</u>
Est. 18043	1976	Service area (not complete)

Belbase facilities

21 The Mediator excluded the Belbase assets from the mediation, as he understands that they were never taken over by the EA Railways and Harbours Administration or the successor EAC Corporation, although it was intended that they eventually should be.

22 After Tanzania became independent, the Belbase assets, which had been leased by the British Government to the Belgian Government in perpetuity, were taken over in 1963 by Tanzania from Zaire, Rwanda and Burundi, but as far as the Mediator is aware, no agreement has yet been reached on compensation. Tanzania entrusted the management of the Belbase facilities to Agency Maritime Internationale, a Belgian firm, though it is understood that the intention is to transfer the facilities at Dar es Salaam to THA and those at Kigoma to Tanzania Railways.

Tanzanian assets in Kenya

23 Although "there was an understanding that assets which previously belonged to "EAC Tanzania" should be released by Kenya to Tanzania", these assets are still in Mombasa, and so Tanzania asked that their value be charged to Kenya.

24 At the fact-finding meeting in May 1979, it was agreed that Kenya and Tanzania would try to decide which assets in Mombasa should be transferred to Tanzania, and that the Mediator should be informed of the outcome. Since the Mediator has heard nothing further on this subject he has, in accordance with his normal practice, charged Kenya with the value of these assets.

25 THA told WG1 that, in addition to the assets at Mombasa, there were 5 labour pilot and police launches under construction in Kenya on which they had spent Shs.0.6 million, though WG1 was unable to confirm this. It was agreed at the fact-finding meetings that Kenya and Tanzania would discuss this matter and that, though it principally concerned only THA and the Kenyan manufacturers, the KPA would try to help. Because the Mediator was not informed of the outcome of these discussions, he did not include any costs relating to

these launches in his proposals.

#### Valuation of fixed assets

26 The fixed assets have been valued at depreciated replacement cost by the Mediator's technical experts in accordance with the principles laid down in paragraphs 413 to 430 of this Report. A schedule of the depreciation rates used by the technical experts is set out as Part III of this Appendix.

#### Civil works

27 Civil works, such as buildings and major port structures have been valued on the basis of local construction costs. In accordance with the Mediator's instructions, construction cost rates were derived by the technical experts on the basis of 1972 rates in Kenya and Tanzania, increased to 30 June 1977 in line with inflation indices obtained from the Kenya Bureau of Statistics. Assets in both Kenya and Tanzania, which were completed after 1974, were valued at rates derived by uplifting the actual cost of construction to the division date by applying the Kenyan inflation factors.

28 Allowance was made in the valuation of buildings to cover the general equipment associated with them - furniture, office equipment, plant such as lifts and air conditioning in office blocks, sliding doors and loading bays to transit sheds, pits in workshops, and all services. Special equipment such as computers, stand-by generators and internal cranes was valued separately. Car parks, landscaped areas and approach drives in the vicinity of buildings have been allowed for in calculating the overall rates used for valuation. Furniture and equipment owned but kept in rented offices has been included in the valuation.

#### Mechanical plant

29 Mechanical plant and equipment has been valued at actual prices FOB Europe or USA increased by an estimated amount for freight and insurance.

30 The valuation took into account the condition of the mechanical assets as follows:-

- (a) assets which were awaiting repairs were valued at only 10% of replacement cost; and
- (b) assets which had been scrapped were given a nil value.

Because of this, and bearing in mind that the value of the assets was reduced to take account of their age, no further provision to restore the assets to proper working order was considered necessary.

#### Division of fixed assets

31 Fixed assets have been divided according to the country in which they were located at 30 June 1977.

#### Capital work in progress Shs.493.8 million

32 Capital work in progress is stated at cost and represents costs paid by 30 June 1977 on assets not in use by that date. In accordance with EA Harbours' normal accounting policy, no accrual has been made for costs incurred but not paid by 30 June 1977. The Mediator's consultants examined the work in progress registers which are maintained by the financial and engineering departments and compared the balances at 31 December 1976 with source documentation, including EA Harbours' completion reports and certificates of work done issued by the projects' consulting engineers.

#### Current assets Shs.639.6 million

33 Current assets may be analysed as follows:-

	<u>Paragraphs</u>	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m
Stocks	34	26.9	15.5	11.4
Debtors	35-36	184.8	82.0	102.8
Cash and bank balances	37-40	427.9	312.6	115.3
		<u>639.6</u>	<u>410.1</u>	<u>229.5</u>



Stocks Shs.26.9 million

34 Stocks, which are recorded separately by each port and have been allocated according to their physical location, are stated at the lower of cost and net realisable value. No value has been given to obsolete, damaged and slow-moving stocks. Both ports operated continuous counting procedures which covered all items during 1976.

Debtors Shs.184.8 million

35 Debtors are stated at book value less a provision for bad and doubtful debts. No information was obtained on debts that remain outstanding from Tanga port but the amounts involved which would be considered doubtful are unlikely to be significant. Government debts have been included at full book value.

Balance with EA Cargo Handling

36 There was a considerable discrepancy between the books of EA Harbours and EA Cargo Handling as to the amount of their inter-company balance in respect of Mombasa port. Following discussions between the management of the Corporation and its subsidiary it was agreed that the balance should be written down to nil. The Mediator has been unable to obtain clarification as to whether this write-off of the amount owed by EA Cargo Handling at 31 December 1976 should include the unsecured loan from EA Harbours to EA Cargo Handling which amounted to Shs.22.5 million. For the purposes of this Report he has assumed the loan to be still outstanding at the division dates.

Cash and bank balances Shs.427.9 million

37 Cash and bank balances were reconciled to the amounts appearing on bank statements at 31 December 1976. Those accounts located overseas have been converted to shillings at the rate of exchange ruling at 30 June 1977. Certificates of balances at 31 December 1976 were received in respect of all bank accounts with the exception of the headquarters' current account with the National Bank of Kenya (Shs. 0.4 million), which told the Mediator's consultants that they had no authority to provide the required information. The amount of Shs.0.4 million has been included in the balance of cash in Kenya.

38 As part of the work to establish the bank balances, the Mediator responded to questions from Uganda by sending a representative to visit the National Bank of Kenya in Mombasa. Concern had been expressed that funds amounting to some Shs.240 million had been improperly transferred from an EA Harbours' account into a fixed deposit account in the name of Mr J Gituma, then deputy Director General of the Corporation.

39 The Mediator's expert, after examining the bank's files, established that four transfers, totalling Shs 170 million were indeed made from current account to fixed deposit account at the National Bank of Kenya, Mombasa, between August 1974 and end 1976; but this deposit account belonged clearly to EA Harbours, not to Mr J Gituma. The Board of Directors of EA Harbours was aware of these transfers (other perhaps than the last), which were as follows:-

	<u>Shs.m</u>
15 August 1974	20
15 February 1975	80
25 July 1975	40
31 December 1976	30
	<u>170</u>
	<u>170</u>

These, together with interest amounting to Shs.10.2 million made up the balance at 31 December 1976 of Shs.180.2 million which was certified to the working group by the bank and included in the 1976 balance sheet.

40 Balances are analysed according to the location of the bank accounts. In the case of the headquarters' overdraft with Crown Agents, the balance has been allocated in accordance with the amounts subsequently repaid by the two Partner States.

#### Current liabilities

41 Current liabilities comprise creditors. Port creditors have been allocated to the Partner States in which the ports are located. HQ creditors are allocated according to which Partner State settled the liability.

Loan capital Shs. 851.0 million

42 A summary of the loans outstanding at 30 June 1977 is set out below:-

	Shs.m
EA loan stocks (net of sinking funds of Shs. 11.9 million)	39.2
IBRD	522.8
International co-operation administration	1.5
CIDA	258.4
British Government	16.1
Zambian Government	13.0
	<u>851.0</u>

Details of the loans and sinking fund investments are given in Parts IV and V of this Appendix, respectively. Proposals for the allocation of these loans amongst the Partner States are set out in Part VIII of the Report.

43 The sinking fund investments may be summarised as follows:-

	Shs.m
Related loan	
EAHC £8.5m 5 $\frac{3}{4}$ % 1977/83	6.2
EAHC £3.5m 5 $\frac{1}{2}$ % 1980/84	3.2
Supplementary fund 1946 Kenya 2 $\frac{1}{4}$ % loan	2.5
	<u>11.9</u>

EAST AFRICAN HARBOURS CORPORATION

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III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

	<u>Life</u>	<u>Residual value not depreciated as percentage of replacement value</u>		
	Years	%		Years
Buildings				
Main sheds and offices	75	20	after	60
Housing	50	20	after	40
Minor sheds	50	20	after	40
Steel structures	75	20	after	60
Minor Port Structures				
Embankments and dredging	00	100	after	0
Quays	50 - 100	10	after	45 - 95
Small jetties	20	10	after	18
Slipways	60	10	after	54
Roads and Paved Areas	40	NA		
Services	20	NA		
Navigation Aids	10 - 40	10	after	9 - 36
Cargo Plant	5 - 35	10	after	4 - 31

## EAST AFRICAN HARBOURS CORPORATION

## IV SCHEDULE OF LOANS AT 30 JUNE 1977

<u>Description and amount of loan</u>	<u>Interest rate</u> % per annum	<u>Terms of Repayment</u>	<u>EA Harbours' Portion of Liability</u> (currency)	<u>EA Harbours' Balance Outstanding</u> (currency)	<u>EA Harbours' Balance Outstanding</u> Shs.m	<u>Guarantees</u>	<u>General Purpose of Loan</u>
<u>Loans Raised by Public Subscription</u>							
East African High Commission 1956 - £ St. 3.5m (1980/84)	5½	Due for repayment in full 1st June 1984	£500,010	£500,010	7.2	Guaranteed by Governments of Kenya, Tanzania and Uganda.)	Financing of general improvements to the harbours.
1957 - £ St. 8.5m (1977/83)	5½	Due for repayment in full on 15th June 1983	£1,037,255	£1,037,255	14.8	Guaranteed by Governments of Kenya, Tanzania and Uganda.)	
1971 - EAR&H Shs. 67,644,909 (1986)	6½	Due for repayment in full in 1986	Shs. 29,149,504	Shs. 29,149,504	29.1	Not known	Not known
<u>Loans from International Agencies</u>							
International Cooperation Administration 1954 £ St. 2.39m (1978)	5	Fully repaid at 30th June 1978	£2,390,000	£103,914	1.5	Not applicable Loan repaid 30th June 1978	Not known
IBRD Loans - 428 - EA US \$5.6m 1965 (1995)	5½	Half yearly on 1st February and 1st August	US\$5,600,000	US\$6,826,138	56.7	Guaranteed by Governments of Kenya, Tanzania and Uganda jointly and severally	To modernise, improve and expand administration facilities and equipment and to increase the efficiency and transport capacity of its harbours.
- 638 - EA US\$35.0m 1969 (1994)	6½	Half yearly on 15th June and 15th December	US\$35,000,000	US\$31,350,045	262.1	ditto	Civil works, floating plant and equipment and cargo handling equipment.
					Carried forward	<u>371.4</u>	

## EAST AFRICAN HARBOURS CORPORATION

## Schedule of Loans at 30th June 1977

<u>Description and amount of loan</u>	<u>Interest rate</u> % per annum	<u>Terms of Repayment</u>	<u>EA Harbours' Portion of Liability</u> (currency)	<u>EA Harbours' Balance Outstanding</u> (currency)	<u>EA Harbours' Balance Outstanding</u> Shs.m	<u>Guarantees</u>	<u>General Purpose of Loan</u>
				Brought forward	371.4		
- 865 - EA US\$26.5m 1972 (1997)	7½	Half yearly on 1st April and 1st October	US\$26,500,000	US\$24,570,932	204.0	ditto	Civil works and consultants.
CIDA 1974 Can \$33.5m (2022)	7	Half yearly on 1st April and 1st October	C\$33,500,000	C\$32,930,000	258.4	Not known	For the acquisition of tugs, mobile cranes, fork lifts, trailers, water barge.
<u>Loans from Governments</u>							
Government of Zambia 1966 Kw 4.0m (1982)		Interest payable half yearly on balance of loan outstanding and the full amount of the grant until 1987. Loan repayable in annual instalments until 1982. Grant is not repayable unless there is a default of interest or loan repayments.	KW 4,000,000	KW 1,234,000	13.0	Not known	Buildings, mobile equipment and boats for Dar es Salaam Ubungo, Tanga and Mtwara ports.
British Government 1961 £ Stg. 1.9m (1986)	6½	Comprises 4 separate loan allocations which are repayable by a fixed annual annuity covering principal and interest on 12th June, 15th March, 27th April and 1st December in each year until 1986.	£1,900,000	£1,127,934	16.1	Not known	Construction of wharves quays and jetties.
Total - all loans					862.9		
Less: sinking fund investments					11.9		
Total (Appendix G, paragraph 42)					851.0		

## EAST AFRICAN HARBOURS CORPORATION

V SINKING FUND INVESTMENTS AT 30 JUNE 1977

£8.5 m. 5½% 1977/83

	<u>Nominal Value</u> £	<u>Market Value</u> £	Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Deposit at call	51,582.58	51,583	0.8 (R)	-	-	-
<u>UK Government Guaranteed Stocks</u>						
Treasury 10½% 1978	133,587.63	135,387	1.9 (R)	-	-	-
Treasury 11½% 1979	698,815.18	741,164	10.6 (R)	-	-	-
Treasury 10½% 1979	43,196.54	44,482	0.6 (R)	-	-	-
Treasury 9% Conv. 1980	29,436.16	29,859	0.4 (R)	-	-	-
Treasury 9¾% 1981	80,451.37	81,179	1.2 (R)	-	-	-
Treasury 14% 1982	269,459.63	312,077	4.4 (R)	-	-	-
Treasury 12% 1983	226,796.00	242,672	3.5 (R)	-	-	-
<u>Commonwealth &amp; Foreign</u>						
<u>Australia &amp; New Zealand</u>						
Australia 5½% 1977/80	37,607.78	32,719	0.5	-	-	0.5
New Zealand 6% 1976/80	190,060.62	169,154	2.5	2.0	0.5	-
Australia 6% 1977/80	99,378.45	84,472	1.2	-	1.2	-
Australia 7% 1979/81	23,597.11	20,765	0.3	-	0.3	-
Australia 7½% 1981/82	403,870.59	323,096	4.6 (R)	-	-	-
New Zealand 5½% 1978/82	11,556.68	8,668	0.1	-	0.1	-
Australia 6% 1981/83	94,227.56	71,613	1.0 (R)	-	-	-
<u>Domiciled with Crown Agents</u>						
British Guiana 3% 1975/80	27,801.59	21,685	0.3	0.3	-	-
Tanganyika 5¾% 1978/82	58,462.52	43,262	0.6 (R)	-	-	-
Railways 5¾% 1977/83	1,507,143.82	1,039,929	14.9 (R)	-	-	-
British Guiana 5% 1980/85	28,137.48	16,882	0.3 (R)	-	-	-
<u>Others</u>						
Malaysia 7½% 1978/82	50,000.00	37,500	0.5	-	-	0.5
Bechuanaland 6½% ICL 1978/82	42,725.86	30,335	0.4	-	-	0.4
Basutoland 6½% ICL 1983	45,387.16	30,608	0.4	0.4	-	-
	<u>£4,153,282.31</u>	<u>£3,569,091</u>	<u>51.0</u>	<u>2.7</u>	<u>2.1</u>	<u>1.4</u>

Note: EA Harbours' share of the above sinking fund is 12.203%, equivalent at 30 June 1977 to Shs 6.2 million. Investments representing this amount have been divided between the Partner States (Shs 2.7 million to Kenya, Shs 2.1 million to Tanzania and Shs 1.4 million to Uganda) in the same proportion as the related loan liability has been divided (see Appendix P). The balance of the above investments, amounting to Shs 44.8 million and designated by "(R)" has been divided as part of the division of EA Railways' assets and liabilities (Appendix E, Part V).

## EAST AFRICAN HARBOURS CORPORATION

Sinking Fund Investments at 30th June 1977

£3.5 m. 5½% 1980/84

	<u>Nominal Value</u> £	<u>Market Value</u> £	Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Deposit at call	43,540.00	43,540	0.6 (R)	-	-	-
<u>UK Government Guaranteed Stocks</u>						
Treasury 11½% 1979	323,031.73	342,608	4.9 (R)	-	-	-
Treasury 10½% 1979	13,871.44	14,284	0.2	-	0.2	-
Funding 5½% Loan 1978/80	3,769.71	3,533	0.1 (R)	-	-	-
Treasury 9½% 1981	19,214.98	19,389	0.3 (R)	-	-	-
Treasury 14% 1982	81,321.35	94,184	1.3 (R)	-	-	-
Treasury 12% 1983	250,788.05	268,343	3.8 (R)	-	-	-
Treasury 7½% 1985/88	16,578.92	13,180	0.2 (R)	-	-	-
<u>Commonwealth &amp; Foreign</u>						
<u>Australia &amp; New Zealand</u>						
New Zealand 6% 1976/80	50,000.00	44,500	0.6	-	0.6	-
Australia 6% 1977/80	100,670.10	85,570	1.2	1.2	-	-
Australia 7% 1979/81	25,000.00	22,000	0.3	-	0.3	-
Australia 5½% 1981/82	95,505.94	76,405	1.1 (R)	-	-	-
New Zealand 3½% 1981/84	881.36	626	- (R)	-	-	-
New Zealand 7½% 1983/86	10,335.03	7,751	0.1 (R)	-	-	-
<u>Domiciled with Crown Agents</u>						
British Guiana 3% 1975/80	50,000.00	39,000	0.6	-	-	0.6
EAHC 5½% 1980/84	670,394.04	429,052	6.1 (R)	-	-	-
British Guiana 5% 1980/85	29,663.27	17,798	0.3	0.2	-	0.1
<u>Others</u>						
Bechuanaland 6½% ICL 1983	41,320.26	29,337	0.4 (R)	-	-	-
Basutoland 6½% ICL 1983	17,126.67	11,550	0.2 (R)	-	-	-
	<u>£1,843,012.85</u>	<u>£1,562,650</u>	<u>22.4 (Note)</u>	<u>1.4</u>	<u>1.1</u>	<u>0.7</u>

Supplementary Fund 1946  
Kenya 2½% Loan

	<u>Nominal Value</u> £	<u>Market Value</u> £	Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m
JMF Deposit at call	177,572	117,572	2.5	1.6	0.9

Note: EA Harbours' share of this sinking fund is 14.286%, equivalent at 30 June 1977 to Shs 3.2 million. Investments representing this amount have been divided between the Partner States (Shs 1.4 million to Kenya, Shs 1.1 million to Tanzania and Shs 0.7 million to Uganda) in the same proportion as the related loan liability has been divided (see Appendix P). The balance of the above investments, amounting to Shs 19.2 million and designated by "(R)" has been divided as part of the division of EA Railways' assets and liabilities (Appendix E, Part V/2).