

**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  
H-T**

**October 1981**

# EAST AFRICAN COMMUNITY MEDIATION

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## 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
KPA	-	Kenya Ports Authority
Kenya Railways	-	Kenya Railways Corporation
MAB	-	Mediator's Auditing Board
ODA	-	United Kingdom Overseas Development Administration
Simbair	-	Simbair Limited
Tanzania	-	United Republic of Tanzania
THA	-	Tanzania Harbours Authority
The 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



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### III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

EAST AFRICAN AIRWAYS CORPORATION

I INTRODUCTION

History and activities of EA Airways

1 EA Airways commenced operations in 1946. Assistance in its early operations was given by the British Overseas Airways Corporation ("BOAC"). BOAC relinquished its interest in EA Airways in 1963. The airline became a Corporation under the East African Airways Corporation Act, 1967.

2 Unlike the other EAC Corporations, EA Airways had a share capital as the Partner States received shares in exchange for an injection of cash in 1973. The Mediator understands, however, that there was no revision to the East African Airways Corporation Act, 1967 in respect of this and that the Partner States had no intention to alter the ownership of EA Airways.

3 EA Airways was an international and domestic airline, and a member of the International Air Transport Association ("IATA"). Its principal international operations were from East Africa to Europe, India and the Middle East, and to other countries within Africa. It had sole traffic rights in respect of flights which took place wholly within the Partner States which were referred to as its domestic routes. The aircraft fleet was made up as follows:-

4 BAC Super VC 10	-	international routes only
3 McDonnell Douglas DC 9	-	international and domestic routes
4 Fokker Friendship F 27	-	principally domestic routes
4 McDonnell Douglas DC 3	-	domestic routes only
1 Boeing 707	-	international freight routes

4 EA Airways had a wholly-owned subsidiary, Simbair Limited ("Simbair") which handled certain charter operations on EA Airways' behalf, using EA Airways fleet and also aircraft leased from other operators. In May 1975 EA Airways purchased the Boeing 707 freighter mentioned above which was used solely by Simbair. The Boeing 707 was sold in October 1977 but the proceeds are still held in London (see paragraph 85 below).



5 EA Airways held a 51% interest in EA Aeradio, the remaining 49% being held by International Aeradio Limited, a subsidiary of BAC. The 51% interest held by EA Airways has now been sold.

6 EA Airways' activities were centred on its headquarters and engineering base at Embakasi Airport near Nairobi, where all principal books of account were located. It had small maintenance facilities in Dar es Salaam, Mombasa and Entebbe, and there were also sales offices in various cities in East Africa and overseas.

#### The collapse of EA Airways

7 Over the few years to 1976, EA Airways had been expanding, having opened up new air routes for its own aircraft as well as leasing a Boeing 747 from Aer Lingus. During 1976, however, relations between the three Partner States were becoming strained and late in the year the headquarters of EA Airways in Kenya incurred severe cash shortages as the other two Partner States began withholding cash funds. The liquidity position reached a crisis in January 1977 when the National Bank of Kenya refused to extend overdraft facilities and Shell withdrew its credit facilities for aviation fuel. EA Airways was unable to pay its debts as and when they fell due and on 27 January 1977 Kenya grounded all aircraft that were then within Kenya. Similarly planes in Tanzania and London were also grounded. On 15 February 1977 the headquarters declared all staff redundant. This is the date which the Mediator has chosen as the division date for EA Airways.

#### Kenya

8 In Kenya the Corporation was placed in liquidation by a Kenyan court decision and the Official Receiver was appointed Interim Liquidator of EA Airways by the High Court of Kenya on 1 March 1977, on a petition presented to the High Court of Kenya on 18 February 1977 by Kenya Shell Limited. After this appointment a final decision on the petition was adjourned on two occasions, but on 23 September 1977 a winding up order was made by the Court and the Official Receiver became the Provisional Liquidator of the Corporation in Kenya. The appointment of, and actions taken by, the Liquidator are not recognised by Tanzania or Uganda.

9 In the context of the Mediator's work, the appointment of a liquidator was of no consequence, as the Mediator's task is to make a valuation and propose a division of the assets and liabilities of EA Airways at 15 February 1977 - i.e. at a date when no liquidator or receiver had been nominated. It may be added though that the Mediator received very helpful co-operation from the Kenyan Liquidator and his staff.

10 During his period as Interim Liquidator, the Liquidator was empowered to dispose of wasting assets and in fact sold the four DC 3 aircraft. He also authorised the repossession of the VC 10 aircraft and spares by BAC. Subsequently, as Provisional Liquidator, he has involved himself in the disposal of all the major assets within Kenya and outside the EAC.

#### Tanzania

11 The assets of the Corporation within Tanzania were entrusted to the control of the Public Trustee of Tanzania. He was given the responsibility of maintaining limited airline operations as well as looking after the affairs of EA Airways within Tanzania. Although three aircraft, one Douglas DC 9 and 2 Fokker F 27 were grounded within Tanzania at the time of the collapse, these were not, at first, used in Tanzania. Two aircraft were leased - a Boeing 737 and a Fokker F 27 - from DETA, the Mozambique airline, and were used to maintain limited airline operations within Tanzania. The Public Trustee later sold the DC 9 but, to date, no other major assets have been sold. From 1 June 1977, the 2 Fokker F 27 owned by EA Airways were taken over and used by Air Tanzania; no consideration for these has yet been paid.

#### Uganda

12 In Uganda, the assets and liabilities of EA Airways were entrusted to the Ministry of Transport, Communication and Works. No aircraft were in Uganda at the time of the collapse but Uganda had certain bank balances.

13 In all three Partner States new national airline corporations have been set up - Kenya Airways, Air Tanzania and Uganda Airlines. In both Tanzania and Uganda the fixed assets and stock of EA Airways have been used by the new corporations, but as yet no sales price nor any rental cost has been determined for the use of these assets. In Kenya the Liquidator has sold

most of the assets to Kenya Airways; it is possible but not certain that all sales took place at fair market values. At the time of the fact-gathering exercise no agreement on these sales had been signed, although Kenya Airways as at 31 August 1978 had made payments on account amounting to Shs 63 million; the remaining debt outstanding is unclear.

#### Overseas liquidators

14 Overseas liquidators have been appointed in England, Zambia, India and Italy while in Kenya the Liquidator has assumed responsibility for the other countries where EA Airways had offices or property. Other than two houses owned by EA Airways, one in Lusaka, the other in Salisbury, neither of which has yet been sold, all other property was leased. In some of the countries whatever EA Airways' assets existed have been sold by local management and the local creditors repaid. There is, however, a general lack of information concerning these offices although it is unlikely that the assets concerned would amount overall to any material value.

#### Records and information available

15 The last published accounts for EA Airways were made up to 31 December 1975. It is, however, clear from the comments made on the accounts for several years by the EAC Auditor-General that the accounting records of EA Airways were unreliable in several material respects. It is also apparent that in the months before the collapse the accounting system deteriorated. The latest accounting information available for EA Airways was a trial balance made up to 31 January 1977 but there is a serious deficiency of data and records to support or give details of this trial balance. Nonetheless it is the only record of assets and liabilities of EA Airways at, or nearly at, the date of the collapse and has been used by the Mediator as a cross check in identifying assets and liabilities at 15 February 1977.

16 The Mediator's consultants had access to the records of the Liquidator in Kenya and received assistance from his accounting advisors. The appropriate officials in Tanzania and Uganda also gave such assistance as they could though in each of these countries there was little accounting information available as the local Airways' offices were not self-accounting. Details of counts of assets in Tanzania and Uganda were, however, provided.

Application of mediation principles to EA Airways

17 Unlike the other corporations, EA Airways collapsed and, as explained above, in Kenya went into liquidation, whereas in Tanzania and Uganda a Public Trustee or Administrator was appointed to safeguard its assets and liabilities.

18 The Mediator's responsibility with regard to EA Airways is no different from that for the other Community institutions; to value and assign the assets and liabilities on the division date, 15 February 1977, when EA Airways ceased to be a going concern; subsequent events, including the appointment of a liquidator in Kenya and the realisation of certain assets, are irrelevant to this task.

19 Accordingly, the Mediator's experts have made every effort to establish a full and complete list of assets and liabilities of EA Airways at 15 February 1977. Insofar as they were unable to do so, it is because one or other of the three Governments did not provide the required information. Even today neither the Government of Kenya nor the Liquidator of EA Airways is able to supply a final list of Kenyan and international creditors though additional information was provided at the fact-finding meetings in July 1981. Of course, the poor state of the records has rendered the Liquidator's task considerably more difficult.

20 No doubt the Liquidator was also justified in taking the position that his first duty was to the creditors and that he should not, by going out of his way to help the Mediator, incur expenses which would reduce the creditors' dividend. In this situation, however, it would have been appropriate for the Government of Kenya to undertake to reimburse the Liquidator for such expenses just as the other two Governments undertook to meet the costs of supplying information. The Mediator's Terms of Reference, which state that each country is to provide the Mediator with all necessary data, do not support Kenya's claim that the costs of producing information should be treated as an expense of the mediation as a whole.

21 The task of the Mediator's expert was to value all the aircraft and spares at open market value on 15 February 1977. A Partner State is charged with the value of what it possessed on the division date; it is not relevant to the mediation that subsequently, for example, an asset was sold at a price different from the Mediator's valuation to a third party to discharge a loan liability, as with the DC 9 in Tanzania, or sold to the national airline to raise funds to satisfy EA Airways' creditors.

22 In accordance with the procedure adopted for all Community institutions, the Mediator valued all the assets and short-term liabilities of EA Airways at 15 February 1977. As shown in paragraph 28 of this Appendix, there was a surplus of assets over short-term liabilities in each Partner State. The surpluses were added to the net assets of all the other Community institutions in order to arrive at the total value of the net assets in the possession of each country, which the Mediator was required to divide among the Partner States.

23 In dealing with EA Airways, however, there was a serious difficulty. In addition to the assets and short-term liabilities within the Partner States, there were, in contrast with the other Community institutions, many outside liabilities. These overseas assets and short-term liabilities, as part of EA Airways' assets and liabilities, clearly fell under the Mediator's Terms of Reference as Community assets and liabilities to be assigned among the Partner States. The Mediator's treatment of them, however, had to take account of the fact that it would be inappropriate to include among a country's assets an overseas asset from which it never received any benefit and equally inappropriate to give a country credit in the mediation for taking on a liability which it never discharged.

24 The situation was further clouded by uncertainty over the number and value of these overseas assets and short-term liabilities. The Kenyan authorities and the Liquidator are to this day unable to quantify completely EA Airways' international liabilities so that the Liquidator's figures cannot yet be reconciled with the claims submitted in response to the Mediator's and Governments' advertisements. There were also other uncertainties affecting the overseas assets, including:-

- (a) the ownership of VC 10 spares and some of the VC 10 engines repossessed by BAC;
- (b) the amount, if any, of its outstanding loan which EAC was entitled to claim after the repossession of the VC-10 aircraft;
- (c) the use to which the proceeds arising from the sale of the Boeing 707 aircraft in London would be put;

- (d) the recoverability of a Boeing 707 spare engine, believed to be in Addis Ababa;
- (e) the recoverability of certain overseas cash balances.

25 In the Mediator's view, with the exception of the house in Zimbabwe (see paragraph 40), Tanzania and Uganda are unlikely to gain possession of the overseas assets; it follows that they are unlikely to settle any overseas liabilities. The Liquidator in Kenya, on the other hand, is trying to do both. The Mediator, therefore, proposed assigning all overseas assets and liabilities to Kenya, other than the Zimbabwe house and the proportion of the DC 9 loans relating to the aeroplane which was in Tanzania's possession. He then had to consider whether the net result would be a surplus, for which Kenya should be charged, or a deficiency, for which they should be credited. Because of the uncertainties referred to above, the Mediator considered it reasonable to assume the value of overseas assets and liabilities would balance out.

26 To sum up, the Mediator's proposals for dealing with EA Airways are based on the following four principles:-

- (a) All local assets to be charged to the Partner State in which they are located.
- (b) All local liabilities to be charged to the Partner State in which they arise.
- (c) All international assets allocated to Kenya with the exception of the house in Zimbabwe at present occupied by the Tanzanian Government.
- (d) All international liabilities allocated to Kenya (except Tanzania's share of the DC 9 loan).

The reason for this treatment, which differs somewhat from that adopted for other Community institutions, is that, after the collapse, Tanzania and Uganda nominated Public Trustees to safeguard and maintain EA Airways' assets, whereas in Kenya a Liquidator was appointed to realise the assets and pay a liquidation dividend to creditors, thus following a course outside the mediation.

## II ASSETS AND LIABILITIES

27 The assets and liabilities of EA Airways at 15 February 1977 are set out below; the figures are based on 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>Paragraphs</u>	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m	<u>Overseas*</u> Shs.m
Fixed assets	32 - 46	237.1	158.1	69.2	9.8	101.3
Interest in subsidiaries	47 - 48	9.6	9.1	0.2	0.3	-
Investments	-	3.5	3.5	-	-	-
Current assets	49 - 66	148.9	66.4	20.8	61.7	48.9
Current liabilities	67 - 73	(183.7)	(152.9)	(29.9)	(0.9)	(46.4)
Net assets		<u>215.4</u>	<u>84.2</u>	<u>60.3</u>	<u>70.9</u>	<u>103.8</u>
			39.1%	27.9%	33.0%	
<u>Financed by:</u>						
Loan capital	74 - 87	195.5				
Less overseas net assets*	74	<u>(103.8)</u>				
		91.7				103.8
Share capital	88	70.4				-
Reserves		<u>53.3</u>				-
		<u>215.4</u>				<u>103.8</u>

\* The overseas assets and liabilities set out in a box in the table above have all been charged to Kenya in accordance with, the provisions of paragraph 26. They do not therefore include the house in Zimbabwe or the portion of the DC 9 loans which have been allocated to Tanzania. The overseas assets and liabilities allocated to Kenya have not been aggregated with local net assets but have been dealt with along with long term loans (see Part VIII of the

Surplus of assets over liabilities

28 The above table indicates that there were surpluses of assets over short-term liabilities (net assets) in each Partner State and overseas as follows:

	<u>Shs.m</u>
Kenya	84.2
Tanzania	60.3
Uganda	70.9
	<u>215.4</u>
Overseas	103.8
	<u>319.2</u>
	<u><u>319.2</u></u>

29 All the assets and liabilities described as "overseas" above have been allocated to Kenya. Therefore the surplus of assets over short-term liabilities assigned to Kenya is:-

	<u>Shs.m</u>
Local	84.2
Overseas	103.8
	<u>188.0</u>
Total surplus	<u>188.0</u>
	<u><u>188.0</u></u>

30 Total long-term liabilities may be analysed as follows:

	<u>Shs.m</u>
Kenya	63.1
Tanzania	26.6
Uganda	2.0
	<u>91.7</u>
Overseas	103.8
	<u>195.5</u>
Total	<u>195.5</u>
	<u><u>195.5</u></u>



This analysis has been made by reference to the assets to which the loans attach. For example the American DC 9 loans have been allocated to Kenya and Tanzania whereas the National Bank of Kenya Boeing 707 loan is included in "overseas".

31 As all the above overseas long-term liabilities have been allocated to Kenya, the overall Kenyan position may be summarised as follows:-

	<u>Shs.m</u>	<u>Shs.m</u>
Surplus of assets over short-term liabilities (net assets)		
Local	84.2	
Overseas	<u>103.8</u>	
		188.0
Less: Long-term liabilities		
Local	63.1	
Overseas	<u>103.8</u>	
		<u>166.9</u>
Surplus of assets over liabilities		<u><u>21.1</u></u>

This indicates that, after paying all the liabilities in full, there should be a surplus on EA Airways in Kenya. However, it must be borne in mind that the assets values assessed for aircraft and spares by the Mediator's expert were based on open market value at 15 February 1977 which differed from sales prices realised by the Liquidator; also many claims, especially BAC and personnel claims of one sort or another, accepted by the Liquidator are not accepted by the Mediator for the purposes of the mediation.

Fixed assets Shs 237.1 million

32 Fixed assets 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	<u>Overseas</u> Shs.m
Buildings	52.2	31.0	12.6	8.6	0.6
Plant and equipment	27.4	25.2	1.0	1.2	-
Aircraft	157.5	101.9	55.6	-	100.7
Total (paragraph 27)	<u>237.1</u>	<u>158.1</u>	<u>69.2</u>	<u>9.8</u>	<u>101.3</u>

Details of working lives considered appropriate, by the technical experts, for those assets which have been valued at depreciated replacement cost, are set out us Part III of this Appendix.

Ascertainment of fixed assets

33 A register of fixed assets was not available and the only sources of information were those supplied by the Liquidator and by each of the Partner States. In Tanzania the Public Trustee appointed a team to count fixed assets within Tanzania belonging to EA Airways and produced a detailed list of fixed assets. Uganda Airlines' personnel carried out a physical inventory and produced a register of all fixed assets belonging to EA Airways within Uganda. The registers of fixed assets for Tanzania and Uganda show no valuation figures. The Government and the Liquidator in Kenya took an inventory of all fixed assets which could be found that belonged to EA Airways both in Kenya and overseas. It was incomplete. The overseas fixed assets have not been fully documented and it appears that in some countries the assets have been sold to repay local creditors. However, full details are not available.

Valuation of fixed assets

34 In view of the collapse of EA Airways, the Mediator considered it appropriate to value the aircraft, aircraft spares and plant and equipment at open market value at the division date (paragraph 420 of the Report). Buildings have been valued at depreciated replacement cost. The determination

and valuation of EA Airways' fixed assets is discussed in more detail in the following paragraphs.

Buildings Shs 52.2 million

35 EA Airways owned buildings in each of the three Partner States as well as a residential house in Salisbury, Zimbabwe, and another in Lusaka, Zambia. Airways also leased office or residential space in the three Partner States, as well as in approximately 21 cities outside East Africa. An office in France was held on a long-term lease, but this was cancelled by the Lessor and re-leased to Kenya Airways.

36 EA Airways' buildings in Tanzania and Uganda have been taken over by the new national airlines; however, no purchase prices have been fixed. The amounts included in this Report comprise the valuation of the buildings carried out by the technical experts.

37 All buildings in Kenya have now been sold by the Liquidator. The principal sale was that of property, including the land, at the Embakasi base and village sold in July 1978 to the Kenya Government. The land was granted as leasehold property to EA Airways by the Kenya Government in 1964; the main lease expires in 1990: no purchase price or initial premium was paid by EA Airways. However, it appears that the property was sold in 1978 with the benefit of the unexpired portion of the lease of some twelve years.

38 The property at Embakasi was held as security by the National Bank of Kenya against loans and overdrafts to EA Airways, which at 15 February 1977 amounted in all to Shs 82.0 million, and the proceeds of the sale were applied in reduction of these borrowings (see paragraph 86).

39 The list of EA Airways' buildings in Kenya which were valued by the experts is as follows:-

<u>Location</u>	<u>Use</u>	<u>Total area sq metres</u>	<u>Date of construction</u>	
Embakasi	Admin block - original	3,220	1958	
	Admin block - extension	1,073	1964	
	Canteen building	1,654	1958	
	Hangar - main	3,792	1958	
	- extension	948	1964	
	- annex	1,952	1958	
	Main stores	3,388	1958	
	Vehicle repair workshop	1,427	1964	
	Electrical workshop	2,582	1958	
	Engine overhaul workshop	2,962	1958	
	Printing shop - main	1,282	1958	
	- annex	393	1958	
	Laundry	578	1964	
	Engine test house	Estimate net value 0.364 x 10 <sup>6</sup> K. shop		
	Aircraft apron and roads	Estimate net value 0.504 x 10 <sup>6</sup> K. shop		
275 Junior Quarter	5,380	1960		
Nairobi	Terminal - cabin serv block	400	1964	
	Compressor house	50	1958	
	Stores building	125	1958	
Muthaiga	Chairman's house	500	1957	
	38 flats	1,578	say 1966	

#### House in Zimbabwe

40 The EA Airways house in Zimbabwe is currently occupied by the Tanzanian Government which apparently pays a monthly rent. The Mediator's expert has visited Salisbury and obtained a valuation of the house - Shs 0.3 million. This amount has been added to Tanzania's net assets and the house allocated to Tanzania.

#### Plant and equipment

41 Plant and equipment was valued by reference to the Corporation's records, computer print-outs and physical inventories, and by physical inspection. During the course of the fact-finding stage of the mediation a number of general and specific questions were raised suggesting that assets had been omitted or undervalued. However, after a number of reviews the Mediator's

Aircraft Shs 157.5 million

42 The valuation of the aircraft by the Mediator's technical expert was as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m	<u>Overseas</u> Shs.m
3 Douglas DC 9	133.4	(2) 88.1	(1) 45.3	-	-
4 Fokker F 27	21.9	(2) 11.6	(2) 10.3	-	-
4 Douglas DC 3	2.2	(4) 2.2	-	-	-
4 BAC Super VC 10	-	-	-	-	(4) 68.0
1 Boeing 707	-	-	-	-	(1) 32.7
	<u>157.5</u>	<u>101.9</u>	<u>55.6</u>	<u>-</u>	<u>100.7</u>

43 The international market price for the aircraft was established on the basis of work demand, their age, number of flying hours and maintenance records for individual aircraft. Thus, for example, the three DC 9's were each given a slightly different value because of their different histories and condition.

The Boeing 707 which was in London at the time of the collapse of EA Airways has been valued at the price realised from its sale by the Liquidator of EA Airways in England. The Mediator's expert, being unable to inspect the aeroplane or obtain full details of its history and condition, could make only a rough assessment of the market value. As the aircraft was not in the possession of any of the Partner States but impounded and sold in the United Kingdom, and as it had been used as a heavy duty "workhorse", it was concluded that valuation at the sale price was practical and appropriate.

Similarly the VC 10s, which the expert was also unable to inspect because they had been repossessed by BAC after the collapse, were valued by reference to their sales price. This was increased somewhat by the expert who considered that the value of the engines should have commanded a higher price.

The DC 3's, which were very old, were also valued at sales price which, in the opinion of the expert, was the maximum value which could be put on these aircraft.

Financing the aircraft

44 The Douglas DC 9 planes were financed partly by loans from Eximbank, New York and McDonnell Douglas Corporation and partly by local loans in each Partner State. Two planes, one in Kenya and one in Tanzania, were sold to Air Finco S.A. for the use of Alisarda S.P.A., an Italian airline. The third has been sold to Kenya Airways by the Liquidator.

45 The Fokker F 27~~s~~ and Douglas DC 3~~s~~ had no loans outstanding on them. Two of the Fokker F 27 are now being used by Air Tanzania, while the other two have been sold to Kenya Airways by the Liquidator. The Douglas DC 3s and all the related spares were sold to Caspair Limited, an air charter flight company operating from Wilson Airport, Nairobi.

46 The financing of the VC10s is described in paragraphs 80 to 82. The Boeing 707 was financed by a loan from the National Bank of Kenya. The bank holds a debenture over this aircraft as part of a total package securing all advances to EA Airways. The Boeing was in London at the time of the collapse and was impounded by the Sheriff of London on a creditors' petition. This aircraft was sold in October 1977 to Greyfin (Nassau) Limited for use by Tradewinds Limited. The proceeds of US\$ 3.9 million are being held in London pending determination of the validity of the debenture.

Interest in subsidiaries Shs 9.6 million

47 The interest in subsidiaries at 15 February 1977 may be analysed as follows:-

	<u>Net book value</u>	<u>Estimated realisable value</u>
	Shs.m	Shs.m
Simbair (100%)	-	7.0
EA Aeradio (51%)	<u>0.1</u>	<u>2.6</u>
Total (paragraph 27)	<u>0.1</u>	<u>9.6</u>

The value of the investment in Simbair, which is in voluntary liquidation, is based on its statement of affairs. This statement indicates that Simbair owes EA Airways some Shs 4.6 million. The Mediator was told by the Liquidator's advisors that this is likely to prove a more accurate figure than the amount of Shs 16.5 million which EA Airways is claiming from Simbair. The estimated realisable value of Shs 7.0 million is made up of the debt of Shs 4.6 million plus share capital of Shs 3.2 million less estimated expenses of realisation of Shs 0.8 million.

48 The valuation of the investment in EA Aeradio is based on an approximate valuation made by the company's auditors at the directors' request when the latter decided to exercise EA Aeradio's lien over those of its own shares owned by EA Airways, in order to satisfy EA Airways' debts.

Current assets Shs 148.9 million

49 Current assets 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	<u>Overseas</u> Shs.m
Spares and stores	51.5	51.5	-	-	25.9
Debtors	45.6	9.7	9.3	26.6	-
Cash and bank balances	51.8	5.2	11.5	35.1	23.0
Total (paragraph 27)	<u>148.9</u>	<u>66.4</u>	<u>20.8</u>	<u>61.7</u>	<u>48.9</u>

The overseas assets have been allocated to Kenya.

Spares and stores Shs 51.5 million

50 The majority of spares and stores were held in Kenya and comprise:-

	Estimated realisable value <hr/> Shs.m	<u>Overseas</u> <hr/> Shs.m
Spare engines	13.3	6.1
Spares	23.2	19.8
Catering and sundry supplies	5.0	-
Stores in transit	10.0	-
	<hr/> 51.5 <hr/> <hr/>	<hr/> 25.9 <hr/> <hr/>

Spare engines Shs 13.3 million

51 The Mediator's technical expert valued the spare engines as follows:-

	Shs.m	<u>Overseas</u> <hr/> Shs.m
3 DC 9 engines	8.7	-
4 F 27 engines	4.6	-
6 VC 10 engines	-	3.9
1 B 707 engine	-	2.2
	<hr/> 13.3 <hr/> <hr/>	<hr/> 6.1 <hr/> <hr/>

The value of the aircraft engines was calculated taking into account the number of heat cycles, that is the number of times an engine has been started and stopped, which each engine had gone through. One DC 9 spare engine was sold with the Kenyan DC 9 aircraft to Alisarda. The consultant engineer valued this at Shs 2.9 million. The other two DC 9 engines were in Switzerland for overhaul at the time of the collapse and were impounded; at the instruction of the Liquidator, they were sold to Air-Finco S.A. for Shs 5.8 million and Swiss creditors of Shs 2.8 million had been repaid; the balance of Shs 3.0 million was remitted to the Liquidator in Kenya. The Mediator's consultant engineer valued the engines at the price they realised - ie Shs 5.8 million. The Mediator has included this in the value of spares and the amount of Shs 2.8 million in creditors.



Spares Shs 23.2 million

52 The technical expert valued spares as follows:-

	Shs.m	Overseas Shs.m
VC 10 spares	0.5	18.3
DC 9 spares	17.2	-
F 27 spares	5.2	-
B 707 spares	-	1.5
Other spares	0.3	-
	<u>23.2</u>	<u>19.8</u>

53 Because of the inadequate state of the accounting at EA Airways in the months prior to the collapse, the Mediator's consultant had considerable difficulty in obtaining reliable information on the quantity of spares held and even, in the case of the VC 10 spares, in establishing their ownership. Physical counts organised by the Kenyan Government and the Liquidator gave conflicting results both with each other and with the book records of EA Airways. Consequently the Mediator's technical expert had to use his judgement, as to which records were the most likely to be reasonably accurate. He based it on the fairly precise guidelines laid down by international regulations concerning the levels of spares which an operating airline must carry.

54. In the case of the VC 10 spares the Mediator's technical expert was able to obtain what he considered to be an accurate list of spares repossessed by BAC. These he valued by inflating the original cost by some 105% to cover inflation over the seven years 1970-76. It was known that the spares were in first class condition. The information in the hand of the Mediator was by no means definitive, in spite of visits by the technical expert to Eastern Airlines in America and BAC in England. However, the title to the spares seemed to belong to EA Airways. The Mediator therefore considers that they should be regarded as assets of EA Airways.

55 A summary of the valuation of VC 10 spares is as follows:-

	<u>Replacement value</u> Shs.m	<u>Second hand value</u> %	<u>Open market value</u> Shs.m
<u>Spares repossessed by BAC/BA</u> (total replacement value Shs.36.5 million)			
(a) parts completely overhauled ZHR (first class market)	9.2	75	6.9
(b) parts overhauled by BA or manufacturers (good market)	18.2	50	9.1
(c) remaining spares in air- worthy condition	<u>9.1</u>	25	<u>2.3</u>
	<u>36.5</u>		<u>18.3</u>
<u>Spares in Nairobi</u>			0.5
			<u>18.8</u>

56 Uganda stated that, in earlier years, it had been the policy of EA Airways to expense a great portion of stores and spares; they now feared that these items had been omitted from the valuation. According to the Ugandans, a physical inventory in 1973 had established that the stores were understated by some Shs 100 million (ignoring obsolescence provisions); the Board had then advised that this sum be written back over 10 years. No accounts for EA Airways were produced after 1975, and so this write-back took place only in 1974 and 1975 at Shs 9.5 million per year, - nothing thereafter.

57 As the Mediator's technical expert explained in the fact-finding meeting, he did not base his valuation on the amounts shown in the financial records of 1973. His valuation was based on physical inspection and on study of a wide range of documents including computer print-outs and on the results of physical stock counts made shortly after EA Airways had collapsed.

Furthermore, as indicated above, the Mediator's representative was aware of the level of spares which the EA Airways fleet would have been carrying, from his own experience and from discussions with other experts in Europe.

Sundry stores and goods in transit

58 The amount of sundry stores was valued by the Mediator's technical consultant on the basis of a print-out dated 8 January 1977. The amount of Shs 10.0 million for goods in transit was estimated with regard to the level of goods in transit which EA Airways was normally carrying, as no adequate information has been provided. The level just before the division date appears to have been somewhat higher but it is likely that some suppliers, aware of EA Airways impending collapse, would have held up shipments

Debtors Shs 45.6 million

59 Debtors 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
Partner State Governments	23.5	2.2	1.8	19.5
EAC institutions	8.0	1.5	1.3	5.2
Others	14.1	6.0	6.2	1.9
	<u>45.6</u>	<u>9.7</u>	<u>9.3</u>	<u>26.6</u>

The amounts due from Partner State Governments and other EAC institutions have been taken from the Liquidator's records which are based on the original accounting records of EA Airways. No allowance has been made for possible non-recovery of these debts. Other debts are included at estimated realisable value.

Crashed VC 10 - proceeds of insurance claim

60 The Mediator scrutinised the payment to EAC of the proceeds of the insurance claim, amounting to Shs 10.3, million in respect of a VC 10 which crashed in Ethiopia in 1972.

At the fact-finding meetings in July 1981 the Liquidator of EA Airways mentioned that BAC had possibly received insurance proceeds in excess of the loss it had incurred. However, he was advised by Counsel that a "proof of loss and release" document dated 20 June 1972 had been signed by EA Airways to release the proceeds to BAC; the payment was therefore in order and it would not be possible to reclaim any part of the amount paid over. Nothing has therefore been included in the mediation figures in respect of this item.

Cash and bank balances Shs 51.8 million

61 Included in the amount of Shs 5.2 million in Kenya is an amount of Shs 5.0 million, which is the Mediator's assessment of the amount received (or receivable) by the Liquidator from the disposal of sundry overseas assets plus the benefit acquired by Kenya Airways for taking over unexpired leases and other assets. Correspondence from the National Bank of Kenya was produced to the Mediator's consultants supporting the amount in Kenya. The Tanzanian figure is based on information supplied by the accountants assisting the Public Trustee; the Ugandan figure was supplied by the Government officials in Uganda and includes a Shs 10.0 million fixed deposit though no evidence was produced to support it.

Overseas bank accounts Shs 23.0 million

62 There were a number of overseas bank accounts belonging to EA Airways, many of them blocked. A list provided to the Mediator of accounts with balances amounting to Shs 29.2 million, indicated that there were possible additional accounts containing unknown sums. Some of these balances are not certain and their recovery is doubtful. However, under the Mediator's proposed treatment of EA Airways, the likely effect of recovery by Kenya of extra overseas funds would be a modest increase in the Kenya liquidation dividend to the unsecured creditors of EA Airways, without consequence for Tanzania and Uganda.

63 These balances constitute, as a matter of principle, assets of EA Airways, irrespective of whether they were blocked by overseas authorities or not. The Partner States and the creditors of EA Airways have every entitlement to benefit from these funds; if foreign exchange regulations prevent their transfer, there may be other ways to repatriate the proceeds, (such as the right to spend the monies on goods and services within the countries concerned).

64 Consequently the Mediator has decided to bring into the mediation the following bank accounts, which were listed as "blocked" in the minutes of a meeting of the EA Airways Board of Directors dated January 1977:

	Shs.m
Mozambique	16.0
Zambia	3.0
Ethiopia	4.0
	<u>23.0</u>

As with other overseas' EA Airways' assets, these are now charged to Kenya.

65 At the same time the Mediator increases short-term liabilities to be settled by Kenya by Shs 23 million (ie from Shs 23.4 million to Shs 46.4 million). This is in line with his estimate that remaining overseas assets equal remaining overseas liabilities.

66 As to the other accounts figuring in the lists provided, identified or unidentified, amounting to Shs 6.2 million, there is so much uncertainty surrounding them that the Mediator has not included them in his proposals.

Current liabilities Shs 183.7 million

67 Current liabilities 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	<u>Overseas</u> Shs.m
Creditors	172.6	141.8	29.9	0.9	23.4
Provision for non recovery of overseas bank accounts	-	-	-	-	23.0
Bank overdrafts	11.1	11.1	-	-	-
Total (paragraph 27)	<u>183.7</u>	<u>152.9</u>	<u>29.9</u>	<u>0.9</u>	<u>46.4</u>

The overseas liabilities have been allocated to Kenya.

Creditors Shs. 172.6 million

68 This figure can be summarised as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Partner State Governments	36.7	25.2	10.6	0.9
EAC	1.2	1.2	-	-
Ticket sales/baggage claims	33.2	28.0	5.2	-
Others	101.5	87.4	14.1	-
	<u>172.6</u>	<u>141.8</u>	<u>29.9</u>	<u>0.9</u>

The amounts included for Kenya are based upon the Liquidator's statement of affairs as at 1 March 1977. No break-down of these figures was provided to WG1. The amount for other creditors in Tanzania is based on information supplied by the Public Trustee. According to Ugandan officials there were no outstanding creditors at 15 February 1977. The above table does not include overseas creditors; these have been considered separately.

BAC Claim

69 The figures for creditors do not include any amounts payable to BAC in respect of the VC 10 aircraft. As mentioned in paragraph 24, there is uncertainty over a number of matters concerning the repossession and sale of the VC 10 aircraft and spares by BAC. The Mediator, of course, is not concerned with events after 15 February 1977, the division date. At that date, EA Airways possessed VC 10 aircraft, spare engines and other spares, valued by the Mediator's expert as follows:-

	Shs.m
4 VC 10 aircraft (all in Nairobi)	68.0
6 spare engines	3.9
Other spares	18.8
	90.7
	90.7

At 15 February 1977 there was an amount of Shs 62.1 million as the balance outstanding on the BAC loan (see paragraph 82); both the assets and the loan have been assigned to Kenya. The Liquidator has included in his figure an amount of some Shs 24 million, being the net amount claimed by BAC after the repossession of the VC 10s

70 Apart from other considerations, the Mediator holds that the position of the BAC loan is unclear and the claim from BAC open to scrutiny. Among the issues that call for clarification are the two following:-

- (a) the question of ownership of the spare engines and other spares relating to the 4 VC 10 aircraft operated by EA Airways. BAC proceeded in early 1977 to repossess the aircraft; at the same time they also repossessed spare engines and other spares valued at Shs 22.2 million (Shs 3.9 million for the engines, Shs 18.3 million for the other spares). These spare parts are said by previous advisors (to EA Airways) to be the property of EA Airways to which BAC has no title. If this is correct, BAC has repossessed assets to which it is not entitled. The value of them would materially affect the amount of whatever

- (b) the inclusion of £521,000 sales expenses in the BAC claim.

The Mediator's aircraft expert was not allowed access by BAC to its files on these matters.

Staff claims

71 The Mediator has excluded all staff claims from the mediation exercise. This does not mean, as has been suggested, that the Mediator is ignoring or disputing claims from former EAC staff. On the contrary, he accepts that many former EAC staff may have valid claims, some of which relate to the break-up of the EAC and some which, although relating to earlier periods, had not been satisfied by the time the Community collapsed.

72 The question of staff claims is, however, complicated because:-

- (a) there is a very large number of such claims, most of them small, which may or may not be justified;
- (b) different benefits may be payable in different parts of the Community because of the different ways in which the break-up of the Community has been treated. For example, it appears that the staff formerly employed by EA Harbours in Tanzania and now employed by the Tanzania Harbours Authority are regarded as having changed their employment whereas former EA Harbours staff now working for Kenya Ports Authority in Mombasa are not considered to have changed their employment; and
- (c) the treatment of claims for repatriation of staff seems to differ among the Partner States.

The Mediator has therefore concluded, as he did with pensions, that it is both practical and equitable for each country to be responsible for paying staff claims to its nationals and he has excluded these claims from the other assets and liabilities of all the Community institutions. He considers this treatment to be entirely consistent with his Terms of Reference. It is also supported by historical precedent; in the Agreement between India and Pakistan, drawn up at the time of Partition in 1947, it was expressly stated that, for example, the liabilities for bonuses or accrued leave for government employees should become the



Overseas creditors

73 As explained in paragraphs 25 and 26, the Mediator proposes assigning all overseas assets and liabilities to Kenya; in view of the uncertainty surrounding the ultimate value of such assets and liabilities he considers it reasonable to assume that they will balance out. He did this by valuing overseas creditors at the amount by which the value of overseas assets exceeds that of other overseas liabilities. This amount is Shs 23.4 million calculated as follows:-

	<u>Paragraphs</u>	Shs.m	Shs.m
<u>Overseas assets</u>			
VC 10 aircraft, engines and spares	87	90.2	
Boeing 707 aircraft engines and spares	87	36.4	
Buildings	32	0.6	
Overseas bank accounts	62-64	23.0	
		<hr/>	150.2
 <u>Overseas liabilities</u>			
VC 10 loan	74	62.1	
Boeing 707 loan	74	41.7	
Provision for non-recovery of bank account	65	23.0	
Creditors (balancing figure)		23.4	
		<hr/>	150.2
			<hr/>
			-
			<hr/> <hr/>

Loans Shs 91.7 million

74 A summary of the loans outstanding at 15 February 1977 and the overseas assets and liabilities which the Mediator has not aggregated with other net assets is as follows:-

	<u>Paragraphs</u>	Shs.m	Shs.m
<u>Loans</u>			
Local*			
DC 9 loans	75 - 78	72.8	
Bank loan	79	18.9	
		<u>          </u>	91.7
Overseas*			
VC 10 loan-BAC	80 - 82	62.1	
Boeing 707 loan	83 - 84	41.7	
		<u>          </u>	103.8
			<u>          </u>
			195.5
 <u>Overseas (assets)/short-term liabilities</u>			
Lands and buildings		(0.6)	
Aircraft		(100.7)	
Spare engines		(6.1)	
Other spares		(19.8)	
Overseas bank accounts		(23.0)	
Total	87	(150.2)	
Overseas short-term creditors		23.4	
Provisions		23.0	
		<u>          </u>	(103.8)
Total			<u>          </u>
			<u>          </u>
			91.7

\* Where applicable, "local" and "overseas" loans are designated by reference to the assets to which they attach.

The Mediator's proposals for the allocation of the above assets and liabilities among the Partner States are set out in Part VIII of the Report. The detailed allocation is given in Appendices P and Q.

Aircraft loans - DC 9's Shs 72.8 million

75 By an agreement dated 8 January 1971, finance for the cost of the three DC 9 aircraft, with associated equipment and spares, was provided as to 4.5% by the manufacturer, McDonnell Douglas Corporation ("McDonnell Douglas"), 40.5% by the Export-Import Bank of the United States ("Eximbank") and the remaining 55.0% by East African banks and EA Airways.

76 The amounts outstanding on the DC 9 loans at 15 February 1977 were as follows:-

	£'000	Shs.m
<u>US Dollar loans</u>		
Eximbank	5,456	
McDonnell Douglas	606	
	<u>6,062 at 8.373</u>	50.8
<u>Local currency loans</u>		
Kenya - National Bank of Kenya		10.3
Tanzania - National Bank of Commerce		9.7
Uganda		2.0
Total		<u><u>72.8</u></u>

The rate of exchange of 8.373 used for converting US Dollars to EA Shillings was that ruling at 15 February 1977.

US Dollar loans Shs 50.8 million

77 The loan is repayable in US Dollars by ten half-yearly instalments of \$764,000 from 15 May 1976 until 15 November 1980. Interest is payable half-yearly at 6% per annum from the date of purchase of the aircraft (March 1971) and was paid up to the date of collapse. The loan is evidenced by the 8 January 1971 agreement and by promissory notes issued by EA Airways to McDonnell Douglas and Eximbank. It is secured by the several guarantees of the three Partner States for one-third of the balance outstanding. The Mediator understands that Tanzania has subsequently repaid one third of the loan, the portion representing the DC 9 held by Tanzania at the time of the collapse.

Local currency loans

78 These loans were negotiated during 1974 following the termination of a bridging loan made by the Kenya Commercial Finance Company. Repayment of these loans should be made in twenty eight quarterly instalments, from 31 March 1974 for the Tanzania loan and from 30 June 1974 for the Kenya and Uganda loans. Interest is payable on the reducing balance at 7½% pa. Loan repayments are severally guaranteed by the three Partner States as to one third of the balance each.

Special bank loan Shs 18.9 million

79 During 1974, Shs 45.0 million of EA Airways' bank overdraft with the National Bank of Kenya was converted into a long term loan repayable over 7 years in quarterly instalments. During the period March to June 1974, Shs 12.8 million was repaid, and from 30 June 1974 onwards repayment was made at the rate of Shs 1.2 million per quarter. Interest is payable at 7½% pa on the reducing balance. This loan was secured by a floating charge over EA Airways' assets which have not otherwise been specifically pledged. The amount outstanding at 15 February 1977 was Shs 18.9 million.

Aircraft loan - VC 10 Shs 62.1 million

80 By an agreement with BAC signed in May 1965, EA Airways leased three VC 10 aircraft together with associated equipment and spares. One of these aircraft was lost in a crash at Addis Ababa; the other two were still operated by EA Airways up to the time of the collapse. By sale agreements, signed in 1967 and 1969, EA Airways purchased two further VC 10 aircraft, financed by BAC. Performance of the agreement of EA Airways was guaranteed jointly by

81 On 16 November 1973, at which time some £5.0 million sterling of instalments were due but unpaid under the financing agreement, with some further £4.0 million sterling due after that date, a new finance agreement was completed varying the terms of (but not cancelling) the lease and the sale agreements. Under the November 1973 agreement:-

- (a) revised repayment instalments were set out (payable in sterling in London), extending complete repayment of the loan until 1983, and promissory notes were issued to BAC;
- (b) guarantees of this new agreement were given by the three Partner States;
- (c) interest was payable with the quarterly instalment at the rate of  $5\frac{3}{4}\%$  per annum; and
- (d) in the event of default, including non-payment of instalments due, BAC was entitled to claim immediate payments of all instalments and to repossess and sell the aircraft, as well as to have recourse to the Partner States' guarantees.

82 After the collapse of EA Airways these aircraft were repossessed by BAC and were subsequently sold to the British Government. According to BAC, at 15 February 1977 the total amount of principal and interest still outstanding under the new agreement, less the sale proceeds, was as follows:-

	£'000	
Loan instalments due	4,202	} Shs 62.1 million
Add: interest outstanding at 15 February 1977	111	
Less: sale proceeds of VC 10 (net of selling expenses of £521,000)	(2,679)	
Balance outstanding at 15 February 1977	<u>1,634</u>	
at 14.4	=	<u><u>Shs 23.5 million</u></u>

It should be noted that the aircraft were not sold until March 1978, so further interest of £330,000 had accrued after 15 February 1977 which has not been included above. The claim put with the Liquidator by BAC, therefore totalled £1,964,000.

Aircraft loan - B 707 Shs 41.7 million

83 In May 1975 EA Airways purchased a Boeing 707 cargo aircraft. This was financed through a loan from the National Bank of Kenya, which in turn received its finance from a letter of credit with Citibank, New York and American Airlines. The first payment on the letter of credit was not due until January 1977.

84 The National Bank of Kenya has subsequently repaid the whole of this dollar loan in line with the agreed repayments schedule. The National Bank holds a debenture over this aircraft as security for the loan. The aircraft, however, was seized in London at the time of the collapse on the petition of a creditor. The Bank is still waiting to hear whether they have a valid claim against the proceeds from the sale of the aircraft of \$3.9 million, which are being retained in London. The amount outstanding at 15 February 1977 was Shs 41.7 million.

National Bank of Kenya

85 The overall position at 15 February 1977 of the National Bank of Kenya can be summarised as follows:-

	<u>Paragraphs</u>	Shs.m
<u>Owing at 15 February 1977</u>		
Overdraft	67	11.1
DC 9 loan	76	10.3
Boeing 707 loan	84	41.7
Special loan account	79	18.9
		<u>82.0</u>
		<u><u>82.0</u></u>

86 The security held by the Bank and its subsequent realisation are as follows:-

	<u>Sale proceeds</u>	
	Shs.m	
Embakasi base and village	55.0	sold July 1978
Muthaiga house	1.8	sold September 1977
Boeing 707 (paragraph 84)	-	
	<u>56.8</u>	
	<u><u>56.8</u></u>	

The amount owed to the Bank at the time of the fact-gathering exercise was Shs 25.2 million plus interest. In addition there was a guarantee by

Overseas assets

87 The amounts for VC 10 and B707 and other overseas assets are in respect of the following:-

	<u>Paragraphs</u>	<u>VC 10</u> <u>Shs.m</u>	<u>707</u> <u>Shs.m</u>	<u>Total</u> <u>Shs.m</u>
Aircraft	42	68.0	32.7	100.7
Spare engines	51	3.9	2.2	6.1
Other spares	52	18.3	1.5	19.8
		<u>90.2</u>	<u>36.4</u>	<u>126.6</u>
Buildings	32			0.6
Bank accounts	62 - 64			23.0
Total	74			<u>150.2</u>

Share capital Shs 70.4 million

88 This is made up as follows:-

	<u>Total</u> <u>Shs.m</u>	<u>Kenya</u> <u>Shs.m</u>	<u>Tanzania</u> <u>Shs.m</u>	<u>Uganda</u> <u>Shs.m</u>
Equity capital from Partner States, subscribed for cash in 1973	61.4	20.5	20.5	20.5
$\frac{3}{2}$ % loan stock 1975 subscribed by Partner States	9.0	3.0	3.0	3.0
	<u>70.4</u>	<u>23.5</u>	<u>23.5</u>	<u>23.5</u>

There are differences in the total due to rounding. As far as the Mediator is aware, no change to the corporate structure of EA Airways was intended by the Partner States as a result of their taking shares in exchange for an injection of cash and there was no amendment to the East African Airways Act, 1967.

EAST AFRICAN AIRWAYS CORPORATION

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>				
<b>Structures</b>				
Offices and workshops	75	20	after	60
Coastal staff houses	50	20	after	40
Inland staff houses	62½	20	after	50
Furniture and fittings	20	nil	after	20
Plant and equipment	20	nil	after	20
<b>Plant and equipment</b>	No depreciation - valued at open market value			
<b>Aircraft</b>	No depreciation - valued at open market value			





APPENDIX I - EAST AFRICAN EXTERNAL TELECOMMUNICATIONS COMPANY LIMITED

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EAST AFRICAN EXTERNAL TELECOMMUNICATIONS COMPANY LIMITED

I INTRODUCTION

Background

1 EA Extelcoms was incorporated on 9 November 1963 and, with effect from 1 January 1964, it acquired the East African assets, liabilities and operations of Cable and Wireless Limited, which had operated telecommunication services in the area since 1910. The company was a wholly owned subsidiary of EA P&T, the latter having acquired for Shs 25.5 million in 1974 the 40% shareholding of Cable and Wireless Limited.

2 Under the terms of the Treaty, EA P&T had the responsibility to provide all telecommunication services for the EAC. In exchange for a franchise fee of Shs 200,000 per annum, EA P&T granted EA Extelcoms the franchise to operate the external services.

3 In addition to operating the external telecommunication services for the EAC, EA Extelcoms handled transit traffic between other African countries and the rest of the world. The services offered by the company comprised telephone, telegraph, telex, leased circuits, ship to shore communication, press reception, television reception and photo telegrams.

4 EA Extelcoms' operations were carried out by two systems:-

- (a) Satellite communication - EA Extelcoms was an operational member of the International Telecommunications Satellite Organisation ("Intelsat") which owns satellites in space for world-wide telecommunications. EA Extelcoms' equipment in Nairobi, and at their Longonot earth station, used this system and the majority of all traffic was handled by it.
- (b) High frequency radio stations - these stations were used for communication with countries which have no satellite facilities. The stations also provided back-up services in case the satellite system failed or became overloaded.

EA Extelcoms also had a very high frequency radio link to Rwanda and Burundi.

5 Effectively EA Extelcoms broke up from 1 April 1975 and from that date the Partner States were paying for their own operations. From May 1975 the headquarters was reduced merely to a co-ordinating role and largely financed on overdraft. All the Tanzanians and Ugandans had left Kenya by 31 March 1977 and the co-ordinating role ceased from 30 June 1977.

6 The operations in Kenya formerly carried out by EA Extelcoms were continued by a new company, Kenya External Telecommunications Company Limited which was incorporated on 28 July 1978; its shares are held by the Kenya Treasury.

7 In Tanzania the operations of EA Extelcoms have been taken over by Tanzania Posts and Telecommunications Corporation with effect from 3 February 1978. Operations in Uganda have continued as before under the management of Uganda Posts and Telecommunications Company Limited.

#### State of the accounting records

8 After 31 March 1975 EA Extelcoms' accounts were regionalised and the records kept by the three Partner States.

9 The last audited accounts are for the year to 31 March 1975 and they were given an unqualified report by the company's auditors. The Mediator's consultants understood that the accounts for the year ended 31 March 1976 would be qualified on a change of accounting basis but not on the state of the books for which the company has been criticised in the past.

## II ASSETS AND LIABILITIES

10 The assets and liabilities of EA Extelcoms as revalued at 31 March 1977 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>Paragraphs</u>	<u>Total Shs.m</u>	<u>Kenya Shs.m</u>	<u>Tanzania Shs.m</u>	<u>Uganda Shs.m</u>
Fixed assets	11 - 14	107.4	94.7	9.9	2.8
Capital work in progress	15	70.8	-	40.2	30.6
Investments	16	18.1	7.9	5.1	5.1
Current assets	17 - 20	210.7	164.3	28.7	17.7
Current liabilities	21 - 22	(64.5)	(42.4)	(12.2)	(9.9)
Net assets		<u>342.5</u>	<u>224.5</u>	<u>71.7</u>	<u>46.3</u>
			65.6%	20.9%	13.5%

### Financed by:

Loans	23	50.0
Share capital		20.0
Reserves		<u>272.5</u>
		<u>342.5</u>

### Fixed assets Shs 107.4 million

11 Fixed assets comprise buildings and plant and equipment as follows:-

	<u>Total Shs.m</u>	<u>Kenya Shs.m</u>	<u>Tanzania Shs.m</u>	<u>Uganda Shs.m</u>
Buildings	50.8	44.9	4.6	1.3
Plant and equipment	<u>56.6</u>	<u>49.8</u>	<u>5.3</u>	<u>1.5</u>

12 WG2 obtained lists of buildings from the fixed assets register maintained in Nairobi; checks in each country showed it to be reliable. Information from Uganda was not received for the period November 1976 to March 1977 but the Mediator understands that there were no material additions to buildings in that period.

13 Plant and equipment may be further analysed as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
CTO	9.1	6.6	2.1	0.4
ITE/IMC, ITS, ITXE	4.1	4.1	-	-
MSC	6.3	6.3	-	-
Earth Station	20.5	20.5	-	-
HF Radio Station	8.7	4.8	2.9	1.0
Training School	0.5	0.5	-	-
Motor Vehicles	1.0	0.8	0.1	0.1
Office machinery	2.2	2.0	0.2	-
Miscellaneous	4.2	4.2	-	-
	<u>56.6</u>	<u>49.8</u>	<u>5.3</u>	<u>1.5</u>

Details of plant and equipment were obtained from the fixed assets register maintained in Nairobi which the Mediator's consultants considered to be reliable.

#### Valuation of fixed assets

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

Capital work in progress Shs 70.8 million

15 Capital work in progress 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
Extelcoms Houses	48.8	-	28.2	20.6
ITSC equipment	22.0	-	12.0	10.0
	<u>70.8</u>	<u>-</u>	<u>40.2</u>	<u>30.6</u>

Extelcoms House in Dar es Salaam was almost finished at the time of the fact-gathering exercise; completion of Extelcoms House in Kampala was being impeded by the shortage of building materials in Kampala.

Investment Shs 18.1 million

16 The investment in Intelsat was reconciled with information provided by Intelsat.

Current assets Shs 210.7 million

17 Current assets 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
Stores	6.4	5.6	0.7	0.1
Debtors	136.3	99.0	23.1	14.2
Cash	68.0	59.7	4.9	3.4
	<u>210.7</u>	<u>164.3</u>	<u>28.7</u>	<u>17.7</u>

Stores Shs 6.4 million

18 Stores were physically counted in each of the Partner States as at 31 March 1977. The Mediator's consultants were satisfied that the counts were carried out properly and that errors in the valuation were not material. An obsolescence provision of 5% has been included as the

Mediator's technical expert considers this to be reasonable.

Debtors Shs 136.3 million

19 Debtors 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
Taxation recoverable	6.6	4.5	1.4	0.7
EA P&T - traffic	103.1	73.1	18.4	11.6
Message accounts	2.7	1.4	1.0	0.3
International telegraph, telephone and telex accounts	19.2	17.2	1.1	0.9
Staff accounts, loans and advances	2.2	1.5	0.3	0.4
Leased circuits	2.0	0.8	0.9	0.3
Debtors control account	0.7	0.7	-	-
Sundry debtors and payments in advance	0.2	0.1	0.1	-
	<u>136.7</u>	<u>99.3</u>	<u>23.2</u>	<u>14.2</u>
<u>Less: provision for doubtful debts</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.1)</u>	<u>-</u>
	<u><u>136.3</u></u>	<u><u>99.0</u></u>	<u><u>23.1</u></u>	<u><u>14.2</u></u>

The above table reflects the final figures for EA Extelcoms' debtors, which were agreed between Kenya and Uganda and handed to the Mediator at the fact-finding meetings in July 1981.

Cash Shs 68.0 million

20 The principal cash balances are deposit accounts in Kenya of Shs 30 million and Shs 15 million with the Kenya Commercial Bank and the Habib Bank respectively. The Kenyan and Tanzanian bank accounts were reconciled at 31 March 1977 apart from some minor late adjustments; the balances on the Ugandan bank accounts were supplied by the chief accountant in Uganda.



Current liabilities Shs 64.5 million

21 Current liabilities may be analysed 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
Creditors	22	57.7	35.6	12.2	9.9
Overdraft		6.8	6.8	-	-
		<u>64.5</u>	<u>42.4</u>	<u>12.2</u>	<u>9.9</u>

Creditors Shs 57.7 million

22 Creditors may be further analysed as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Fixed deposits from message customers	0.5	0.3	0.1	0.1
International accounts	40.0	26.0	9.8	4.2
Suspense account	4.6	0.4	0.6	3.6
Cable & Wireless Limited	0.4	0.5	(0.1)	-
Leased circuits	0.9	0.2	0.7	-
Creditors control account	0.9	0.9	-	-
Accrued charges	8.7	7.7	0.1	0.9
Audit fees	0.4	0.4	-	-
Intelsat current account	1.3	(0.8)	1.0	1.1
	<u>57.7</u>	<u>35.6</u>	<u>12.2</u>	<u>9.9</u>

The above figures are those agreed between Kenya and Uganda and handed to the Mediator at the fact-finding meetings in July 1981.

Loan capital Shs 50 million

23 The loans of EA Extelcoms outstanding at 31 March 1977 were as follows:-

	Shs.m	<u>Purpose of loan</u>
Marconi Communications Limited	1.6	Longonot Earth Station
Standard and Chartered Bank	6.4	Extelcoms House, Dar es Salaam
Tanzania Investment Bank	13.0	ITSC equipment in Extelcoms House, Dar es Salaam
Consortium loan	17.0	Extelcoms House, Kampala
Grindlays Bank (Uganda) Limited	12.0	ITSC equipment, Kampala
	<u>50.0</u>	

The Mediator's proposals for the assignment of these loans are set out in Part VIII of the Report.

EAST AFRICAN EXTERNAL TELECOMMUNICATIONS COMPANY LIMITED

III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

	<u>Life</u> Years	<u>Residual value not depreciated as</u> <u>percentage of replacement value</u>		
		%		Years
<b>Buildings</b>				
<b>Structures</b>				
Offices and station buildings	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
<b>Plant and equipment</b>				
<b>Satellite Systems</b>				
Aerials and other external plant	15	7	after	14
Radio transmission equipment	10	10	after	9
<b>Microwave HF and VHF systems</b>				
Aerials and other external plant	15	7	after	14
Radio transmission/Multiplex equipment	10	10	after	9
<b>Coaxial landlines</b>				
Repeater, equaliser and terminal equipment	20	5	after	19
Multiplex equipment	10	10	after	9
Cable	40	2½	after	39
<b>Switching centres</b>				
Exchange equipment	10	10	after	9
Subscriber equipment	10	10	after	9
Manual switchboard	15	7	after	14
<b>Power plant</b>				
Rectifiers and generators	15	7	after	14



APPENDIX J - EAST AFRICAN CARGO HANDLING SERVICES LIMITED

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EAST AFRICAN CARGO HANDLING SERVICES LIMITED

I INTRODUCTION

Background

1 The company was incorporated on 25 June 1951 with the name Landing and Shipping Company of East Africa Limited.

2 In 1952 the company entered into an agreement with the East African Railways and Harbours Administration whereby it was to provide shore handling services at the East African seaports which were controlled by the Administration. At this time the stevedoring activities at the ports were carried out by various companies, the majority of which were subsidiaries of large international shipping companies.

3 In 1964 EA Cargo Handling took over the stevedoring activities of these companies and, since that date, EA Cargo Handling has been the sole provider of stevedoring and shore handling services at the main East African seaports.

4 EA Cargo Handling is owned five-sixths by EA Harbours and one-sixth by EA Railways.

5 In 1971, when exchange control regulations were introduced between Tanzania and Kenya, the branches of EA Cargo Handling began to operate as individual units and to finance all their own capital requirements, mainly through individual loans from EA Harbours. The head office was at Mombasa where the operational results of the branches were consolidated into the company's accounts. The expenses of running the head office were shared equally between Tanzania and Kenya with each of the Tanzanian branches contributing their portion. It is generally accepted by management in Mombasa and Dar es Salaam that EA Cargo Handling ceased to function as an EAC institution from 31 December 1976 although the last payment actually made by Tanzania for head office expenses was for the month of January 1977.

Agreement with EA Harbours

6 The agreement under which EA Cargo Handling operates was revised a number of times after the original agreement in 1952. The last contract with EA Harbours was signed on 13 December 1972 and covered the period 1 January 1972 to 31 December 1976.

7 The agreement provided that EA Cargo Handling would perform the cargo handling services at the ports and would perform work and services solely for EA Harbours. The agreement also sets out the types of work to be performed together with the rates of pay which EA Cargo Handling was to receive. The main types of work to be performed were stevedoring, shore handling and lighterage work.

8 The rates of pay which EA Cargo Handling received were designed to give it enough profit so that its operations could be properly funded. The agreement provided that at its expiration any accumulated reserves of EA Cargo Handling were to be repaid to EA Harbours.

9 Under the agreement EA Cargo Handling was required to provide the plant and machinery necessary to perform its services, except for the portal, floating and shed cranes which were provided by EA Harbours. EA Harbours also provided the required port buildings, lighter tugs and lighters. EA Cargo Handling provided staff housing wherever it was necessary.

10 EA Harbours also acquired certain items of plant which were leased to EA Cargo Handling. The Mediator understands that a lease agreement was drafted between EA Harbours and EA Cargo Handling but is not certain whether it was ever signed.

11 New agreements have now been drafted independently in Kenya and Tanzania between the ex-branches of EA Cargo Handling and KPA in Kenya and THA in Tanzania. These agreements came into force on 1 July 1977 in Kenya and 1 June 1977 in Tanzania.

Share capital

12 EA Cargo Handling's authorised share capital is Shs. 15.0 million, comprising 750,000 shares of Shs. 20.0 each. The issued capital, which is fully paid up, is held as follows:-

	<u>Issued capital</u>	
	No. of shares	Shs.m
EA Harbours (5/6ths)	416,667	8.3
EA Railways (1/6th)	<u>83,333</u>	<u>1.7</u>
	<u>500,000</u>	<u>10.0</u>

EA Cargo Handling was a wholly-owned subsidiary of the East African Railways and Harbours Administration. When the Administration was divided into the two separate corporations in 1969, the shares in EA Cargo Handling were split in the above proportions.

Branches

13 EA Cargo Handling organised its operations so that it had a branch for each of the ports where it operated. There were, therefore, the following branches:-

	<u>Tonnages handled for</u> <u>year to 31 December 1976</u>
	'000
Kenya - Mombasa	5,748
Tanzania - Dar es Salaam	6,322
- Tanga	738
- Mtwara	<u>372</u>
	<u>13,180</u>

Each branch was responsible for the day to day servicing of its respective port. The head office in Mombasa provided central administration, technical advice and direction to the branches.



Current state of the accounts

14 The audit of EA Cargo Handling's financial statements was the responsibility of the Auditor-General of the EAC. He appointed a Kenyan firm of chartered accounts to carry out the audit.

15 At the time of the fact gathering exercise, the audit for the year ended 31 December 1976 had been completed, but the auditors' report was not signed. The auditors told the Mediator's consultants that the report would be qualified by reference to the notes on the accounts. In view of the small size of EA Cargo Handling in relation to the majority of the other Community institutions, the Mediator does not consider that the possible effects of these qualifications could have a significant impact on the mediation.

Accounting records

16 Each branch kept its own accounting records, other than fixed asset registers and general ledgers which were kept at head office, Mombasa. For each branch, the head office maintained a general ledger, which was hand-written from monthly returns of receipts and payments received from the branches. Although the ledgers were written up regularly, EA Cargo Handling has not in the past prepared accounts during the year, but only at the year end. Since break-up, the branches have begun maintaining their own general ledgers.

17 A computer bureau was used at Mombasa and Dar es Salaam to process wages but otherwise all accounting records were hand-written.

18 Fixed assets registers were kept for each of the branches by the branches by the head office in Mombasa. The registers appeared to be well maintained although a few minor discrepancies in the number of plots of land were found when compared to the Task Force report produced in Tanzania (paragraph 20).

19 The Tanzanian branch has recently compiled their own fixed asset records based on the Task Force report.

Task Force report

20 During July and August 1977, a team (the Task Force) was established by the Tanzania Government to prepare lists of assets, including those relating to EA Cargo Handling: these lists were substantially in agreement with the head office records of EA Cargo Handling.

## II ASSETS AND LIABILITIES

21 The assets and liabilities of EA Cargo Handling at 31 December 1976 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 between Kenya and Tanzania has been made in accordance with the methodology set out in Part IV of the Report.

	<u>Paragraphs</u>	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m
Fixed assets	22-24			
Buildings		7.0	3.9	3.1
Plant and machinery		<u>28.7</u>	<u>13.1</u>	<u>15.6</u>
		35.7	17.0	18.7
Current assets				
Stocks	25	8.6	4.8	3.8
Debtors	26-27	31.7	10.2	21.5
Cash	28	<u>76.9</u>	<u>7.1</u>	<u>69.8</u>
		<u>117.2</u>	<u>22.1</u>	<u>95.1</u>
Current liabilities				
Creditors	29	16.9	8.1	8.8
Provisions		<u>1.5</u>	<u>0.4</u>	<u>1.1</u>
		<u>18.4</u>	<u>8.5</u>	<u>9.9</u>
Net current assets		<u>98.8</u>	<u>13.6</u>	<u>85.2</u>
Net assets		<u>134.5</u>	<u>30.6</u>	<u>103.9</u>
<u>Financed by:</u>				
Loan capital	30-34	27.1		
Share capital		15.0		
Reserves		<u>92.4</u>		
		<u>134.5</u>		

Fixed assets Shs. 35.7 million

22 Buildings comprise staff houses; title deeds were sighted for most properties in Kenya, although none could be found for the property in Tanzania.

23 The major items of the company's plant and equipment are fork lift trucks. During the course of their work the engineers satisfied themselves that, overall, the number of fork lift trucks and other items of plant, recorded in the lists provided to them, were not materially in error.

Valuation of fixed assets

24 The Mediator's technical experts valued the fixed assets at depreciated replacement cost in accordance with the principles set out in paragraphs 413 to 430 of the report. They considered that the maintenance of mechanical plant in both Kenya and Tanzania was poor, especially in the case of fork lift trucks and trailers but did not consider that provision for this would significantly alter the valuation.

Stocks Shs. 8.6 million

25 The company's stocks consist mainly of spare parts for the equipment and general stores such as ropes, fuel, uniforms and stationery. These stock figures were certified by branch officials. Although stock records existed, the auditors were not satisfied that they were properly maintained. No physical stocktake was carried out at the year end. The auditors were therefore unable to give an opinion on the stock figure. The Mediator is satisfied however that inaccuracy in the amount of stocks is immaterial in the context of the mediation.

Debtors Shs. 31.7 million

26 This figure is made up as follows:-

	<u>Total</u>	<u>Kenya</u>	<u>Tanzania</u>
	Shs.m	Shs.m	Shs.m
EA Harbours current account	14.8	-	14.8
Staff accounts	10.6	7.2	3.4
Corporation tax repayable	2.9	2.9	-
Miscellaneous	<u>3.4</u>	<u>0.1</u>	<u>3.3</u>
	<u>31.7</u>	<u>10.2</u>	<u>21.5</u>

EA Harbours - current account

27 Under its agreement, EA Cargo Handling is allowed to perform services only for EA Harbours. Thus EA Harbours is normally the only material debtor of EA Cargo Handling. However, at the time of the fact-gathering exercise there was a substantial difference between the books of EA Cargo Handling and EA Harbours in respect of Mombasa port. This difference arose because, in 1975, EA Cargo Handling increased its rates charged to EA Harbours. The new rates were accepted by the EA Harbours' management in Dar es Salaam and applied in Tanzania. However, the Mombasa port management decided that the new rates were excessive, and that it could not afford to pay them since it was not possible to pass them on in port handling charges to the shippers, as this required the agreement of all three Partner States. Following discussions between the management of EA Cargo Handling and KPA, it was agreed that the current account balance at 31 December 1976 should be written down to nil. Before this adjustment was made, the books of EA Cargo Handling showed amounts due from EA Harbours at the new 1975 rates, whereas the books of EA Harbours in Mombasa calculated the amount due at the previous rates.

Cash Shs. 76.9 million

28 The cash balances held by EA Cargo Handling as at 31 December 1976 principally comprised fixed deposits in Tanzania amounting to Shs. 61.5 million. The Mediator's consultants received confirmation from the respective banks of fixed deposits in Dar es Salaam, amounting to Shs. 39 million. The remaining Tanzanian balances of Shs. 22.5 million were held in Tanga and Mtwara and were agreed by telephone with the local EA Cargo Handling management.

Creditors Shs. 16.9 million

29 Creditors include outstanding accruals for wages and National Social Security Fund contributions. The auditors were unable to satisfy themselves as to the value of creditors in the accounts since neither statements nor reconciliations were made available to them.

Loan capital Shs. 27.1 million

30 This is made up as follows:-

	<u>Total</u>
	Shs.m
Debenture	4.6
EA Harbours' unsecured loan	<u>22.5</u>
	<u>27.1</u>

Debenture Shs. 4.6 million

31 This loan was raised in 1967 to provide funds for the acquisition of equipment at the Mombasa branch. The majority of the plant which was purchased has now been fully depreciated and some of it has been scrapped. The debenture holders are:-

	Shs.m
EA Harbours (5/6ths)	3.8
EA Railways (1/6th)	<u>0.8</u>
	<u>4.6</u>

This is in the same ratio as the ownership of the equity of EA Cargo Handling.

32 Interest was payable on the debenture at the rate of 6% per annum. The debenture was repayable in December 1976; however due to a lack of funds no repayment has yet been made as far as the Mediator is aware. Interest is continuing to be accrued. The Mediator understands that it has been agreed that the debenture is to be repaid by the funds from the Mombasa branch as that branch received the benefit from the loan.

Unsecured loan Shs. 22.5 million

33 This loan was due to EA Harbours. Shs. 23.0 million was received during 1973 when EA Cargo Handling was experiencing a severe liquidity shortage. During 1974 the Tanzania branch repaid its Shs. 1.0 million portion of the loan. A further Shs. 0.5 million was taken up by the Mombasa branch in 1975 to fund a housing loan scheme for employees, leaving the above balance of Shs. 22.5 million. The 1976

34 WGI was unable to establish whether there was a formal loan agreement or whether the terms of repayment had been finalised. Interest was being paid at 5% on the balance of the loan.

EAST AFRICAN CARGO HANDLING SERVICES

III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

	<u>Life</u>	<u>Residual value not depreciated as percentage of replacement value</u>		
	Years	%		Years
Buildings				
Structure	50	20	after	40
Finishes and fittings	20	nil	after	20
Plant and machinery	5-40	10	after	5-36



**K**

## APPENDIX K - GENERAL FUND SERVICES

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GENERAL FUND SERVICES

I INTRODUCTION

Structure of GFS

1 The GFS comprised the EAC administrative institutions, a considerable number of common services and research activities which were financed out of the GFS budget. A complete list of GFS organisations is attached to the Mediator's terms of reference which are set out at Appendix A.

2 Before the break-up of the EAC the structure of the GFS was as follows:-

- (a) the East African Authority (the three Presidents);
- (b) three Councils which reported to the Authority:-
  - (i) Common Market Council (three ministers);
  - (ii) Communications Council and Research and Social Council (three ministers);
  - (iii) Finance Council (three ministers).
- (c) Three Secretariats, one of which supported each Council:-
  - (i) Common Market and Economic Affairs Secretariat (two ministers and one secretary). This included Common Market and Statistical Divisions, Common Market Tribunal, Customs and Excise, East African Industrial Research Organisation.
  - (ii) Communications Research and Social Services Secretariat (one minister, one deputy and one secretary). This included Communications Divisions, East African Industrial Court, Directorate of Research and various Research Organisations, East African Meteorological Department, the Inter-University Committee and the East African Examinations Council.

- (iii) Finance and Administration Secretariat (one minister, one deputy, one secretary). This included the Budget Section, Technical Assistant, Accountant General, Supplies Branch, Works Division and East African Tax Board.
- (d) East African Court of Appeal; and
- (e) East African Legislative Assembly.

### Financing the GFS

3 The way by which the GFS was financed changed during the colonial period and East African Common Services Organisation period. Article 68 of the Treaty established the General Fund as the main source of financing the non self-contained services of the Community. The General Fund was financed initially by:-

- (a) costs of collection of the Customs and Excise Department, the East African Income Tax Department and the Transfer Tax;
- (b) Customs and Excise duty, to the extent required to cover the remaining financial gaps of the GFS; and
- (c) certain taxes on manufacturing companies.

4 In 1973, however, the East African Income Tax department was split up and thereafter GFS funds came primarily from Customs and Excise duties. The three Partner States agreed that their contribution would be in the ratios:-

Kenya	48.14%
Tanzania	31.32%
Uganda	20.54%

These ratios remained in force until the break-up.

5 It was also agreed that working capital in excess of Shs 26 million would be refunded to the Partner States at the end of the financial year. This prevented the GFS from building up reserves as a cushion for difficult times.

### Break-up of the GFS

6 The major problems leading to the break-up originated in 1971 when, from July to December, the GFS was operating without any approved budget. Thereafter, the free movement of currencies within the EAC was heavily curtailed, resulting in funding and accounting problems.

7. The break-up in December 1973 of the East African Income Tax department, which was a department of the GFS and a major source of revenue, required alternative financing to be arranged from that laid down in the Treaty.

8 The dissatisfaction with the Community, which increased during the 1970's, affected the administration of the GFS. Officials of the Council were delaying decision making which in turn delayed the projects. Rumours of the break-up were circulating by March 1977 and senior Kenyan officials began to return home. In June 1977, the three Partner States failed to vote the budget for July 1977 - June 1978. On June 1977 the Kenyans were repatriated and by 30 August 1977 the Ugandans had returned to Uganda.

9 From July 1977 records for Tanzania region were kept separately from those of the GFS and from 1 July 1977 Customs and Excise became independent. On 21 November 1977 the Administrator General in Tanzania was appointed as Public Trustee and he took over the management of the former GFS institutions in Tanzania. By January 1978 the former GFS institutions in Tanzania were either independent or had been transferred to parent ministries; this is understood to have been the position in Kenya and Uganda also.

### State of the accounting records

10 The last audited accounts were for the year ended 30 June 1972 and, at the time when the fact gathering exercise of the mediation commenced, no accounts had been produced for the period after 30 June 1975. Although WG2, together with the officials of GFS, was able to produce some figures for the accounts for the year ended 30 June 1977 these were known to be very rough and a more thorough set of draft accounts was submitted to the Mediator only in January 1980, extremely late in the day.

11 The Mediator's consultants noted the following major weaknesses in the accounting:-

- (a) many of the institutions of the GFS had substantial unreconciled differences with the headquarters;
- (b) many institutions of the GFS, particularly from Uganda, had not submitted monthly returns of income and expenditure for 1976/77;
- (c) reconciliations of major bank accounts had not been carried out since 1974;
- (d) there were no records of fixed assets except for the land and buildings register which had none of the accounting controls normally associated with such registers;
- (e) the filing of documents was disorganised;
- (f) the cash books had not been properly maintained and contained many major omissions and errors.

12 The accounts of GFS were maintained on a government accounting basis which the Mediator did not consider suitable for his purposes as:-

- (a) only cash paid and received is brought in, ie there are no prepayments and accruals;
- (b) assets purchased in the normal course of business (ie those funded from Estimates) are written off and not capitalised; and
- (c) loans not financed by a Partner State are excluded.

Consequently the Mediator, through his consultants, requested the Partner States to prepare full accounts for the GFS for the year ended 30 June 1977 as he has chosen that date as the division date for GFS. These were received in draft form in January 1980.

II ASSETS AND LIABILITIES

13 The estimated assets and liabilities of the GFS, as revalued at 30 June 1977 by the Mediator's technical experts, are set out below. The figures are based on information obtained by the Mediator's consultants and technical experts, including the information which came to light as the 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>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)	14 - 30	1,011.0	453.3	363.5	194.2
Current assets	31 - 37	245.6	56.5	138.7	50.4
Current liabilities	38 - 42	(336.6)	(88.8)	(220.6)	(27.2)
		920.0	421.0	281.6	217.4
Assets to be transferred	30	-	(1.0)	-	1.0
Net assets		920.0	420.0	281.6	218.4
			45.7%	30.6%	23.7%
<u>Financed by:</u>					
Loan capital	43 - 45	140.3			
Overseas net liabilities		4.3			
		144.6			
Reserves		775.4			
		920.0			

Fixed assets Shs 1,011.0 million

14 Fixed assets 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
Buildings	693.6	267.9	278.4	147.3
Plant and machinery	317.4	185.4	85.1	46.9
Total (paragraph 13)	<u>1,011.0</u>	<u>453.3</u>	<u>363.5</u>	<u>194.2</u>
		44.8%	36.0%	19.2%

Fixed assets were 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 which the technical experts considered appropriate is set out as Part III of this Appendix.

Buildings Shs 693.6 million

15 A detailed register of buildings by Partner States was maintained in Arusha; this register and the engineering records kept in Kenya were used to identify the buildings and provide information from which the valuation could be made. In addition, the Mediator's technical expert physically inspected approximately 80% of all GFS buildings.

16 The current replacement cost of buildings was based on actual costs, as far as these were available, increased for all three countries to 30 June 1977 by applying the Kenyan construction cost index. Where original costs were not available, costs were estimated by comparison with similar constructions.

Arusha Headquarters complex Shs 129.6 million

17 Included in the amount of Shs 261.9 million for buildings in Tanzania is an amount of Shs 129.6 million in respect of the Arusha EAC Headquarters complex which was financed by the Condotte loan (paragraph 44) and built from 1972 to 1977.



18 The Mediator's expert assessed the depreciated replacement cost of the headquarters complex at 30 June 1977 at Shs 152.9 million. The valuation may be summarised as follows:-

	Shs.m
Office building	70.9
Assembly hall	14.5
Industrial area	7.0
Residential houses	60.5
	<u>152.9</u>
	<u><u>152.9</u></u>

The Mediator accepted the valuations of the assembly hall, industrial area and residential houses as fair and made no adjustments to them. However, special circumstances called for a reduction in the value of the office buildings.

19 Unlike nearly all the other major assets of the EAC, the Community headquarters at Arusha ceased to fulfil the purpose for which it was built once the Community had collapsed. There is no question that if the Community had not existed, the headquarters would not have been built. On the other hand, there is no doubt that Tanzania has gained possession of a valuable Community asset. If the building were in Dar es Salaam (or Nairobi or Kampala), it would be easy to find alternative uses and there would be no reason for valuing it at less than depreciated replacement cost. None of the regional Community headquarters buildings or the headquarters of the Corporations, all of which are fully utilised for one purpose or another, has been valued for the mediation below depreciated replacement cost.

20 In Arusha, alternative uses are severely limited. Only some 25%-40% of offices were occupied between 1977-1981, and whereas it is possible that more could be let if diligent efforts were made to attract tenants, a large number are likely to remain unoccupied for years to come, while maintenance costs continue. The replies to enquiries addressed to public and private international organisations indicate that they prefer sites near capital, or other important, cities for their regional headquarters. After consulting his advisers, the Mediator concluded that a reduction of the value of the

office building by some 33% was appropriate and equitable to all parties.  
This reduces the value of the complex as follows:-

	Shs.m
Full depreciated replacement cost	152.9
Less 33% of office building (Shs m 70.9)	<u>(23.3)</u>
	<u>129.6</u>

21 A detailed summary of the Arusha EAC headquarters' complex is as follows:-

	<u>Floor area</u> m <sup>2</sup>	Shs.m
<u>Office buildings</u>		
3 blocks, 7 storeys		
Office area including corridors	18,500	
Restaurant for 200 persons	550	
Bank	100	
P&T	90	
Airways	50	
Other service areas	7,500	
Walls and partitions	1,450	
	<u>28,240</u>	70.9
<u>Less: reduction to post EAC useful value</u>		<u>(23.3)</u>
		47.6
<u>Assembly hall</u>		
Office area	700	
Assembly hall (790 seats)	950	
Round room	200	
Service areas	900	
Walls and partitions	150	
	<u>2,900</u>	14.5
<u>Industrial area</u>		
Literature bureau:		
Office area	800	
Reproduction	280	
Printing section	1,200	
Store	1,060	
Workshop	60	
Works division:		
Office area	180	
Workshop	770	
Customs and excise:		
Office area	180	
Warehouse, garage	620	
	<u>5,150</u>	<u>7.0</u>

	brought forward		69.1
<u>Residential houses</u>	<u>Houses</u>	<u>Flats</u>	
Kijenge site:			
Senior grade	27	8	
Intermediate grade	38	154	
Kibla site:			
Junior grade	—	360	
Total residential houses:	<u>65</u>	<u>522</u>	<u>60.5</u>
Total value Arusha headquarters complex			<u>129.6</u>

Plant and machinery Shs 317.4 million

22 A summary of plant and machinery is set out below:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
DCA	178.9	128.5	19.8	30.6
Meteorological department	52.4	29.4	17.6	5.4
Other GFS organisations	<u>86.1</u>	<u>27.5</u>	<u>47.7</u>	<u>10.9</u>
	<u>317.4</u>	<u>185.4</u>	<u>85.1</u>	<u>46.9</u>

Details were not provided by the Partner States of plant and equipment of all the major organisations, so that in certain cases it was necessary for the Mediator's technical experts to make estimates.

23 The current replacement cost of plant and machinery at 30 June 1977 was based on current FOB prices on the world market, in the case of major items, and by inflating the original prices to the division date for less important items.

24 Plant and machinery includes motor vehicles and stocks and spare parts.

Central stores of DCA and meteorological department

25 Included in the figures for Kenya are amounts of Shs 60.0 million and Shs 8.3 million as the respective values of the central stores of the DCA and the Meteorological department. These figures are estimates as Kenya, in which country the stores are located, has failed to carry out a physical count or furnish the Mediator's consultants with sufficient substantial data about them.

26 All three Partner States queried the valuation at 30 June 1977 of the central stores of the DCA and the Meteorological department. Tanzania rejected the valuation on the grounds that Kenya failed "to provide physical inventories and substantial data". Uganda also thought there had been a substantial undervaluation, while Kenya suggested that valuations of Shs 12 million and Shs 0.9 million, respectively, would be more accurate. In Kenya's view the value put on DCA stores was too high because of double counting, failure to consider obsolescence and the inclusion of stores purchased for Tanzania and Uganda, but not collected by them.

27 The Mediator's expert considers that Kenya does not offer sufficient evidence to justify any change to the present figures, although they are admittedly only estimates based on information provided by the stores supply officers in Kenya. However, in the expert's judgement, bearing in mind the overall size of the DCA it is unlikely that the stores are undervalued. Accurate figures could be established only by a physical count and, even if one were to be carried out today, it would prove very difficult, if not actually impossible, to use it to calculate accurately the stock on hand at 30 June 1977. The Mediator therefore proposes that the estimates accepted by the expert be included.

Adjustments to GFS assets

28 During the course of the mediation work the Partner States raised, from time to time, in letters, memoranda or in the fact-finding meetings, various specific questions concerning the inclusion, exclusion or valuation of GFS assets. In particular Tanzania raised a number of points in its memorandum dated July 1980 and Uganda in its memorandum of July 1981. There were no less than four fact-finding meetings on the GFS in July 1981 at which Uganda presented further papers. Kenya also brought up a number of queries.

29 These questions and discussions all formed a natural part of the supply and exchange of information on which the fact-gathering was based. All of the matters raised were reviewed, some were accepted in full, some in part

points has been set out in his fact-finding Report of 14 September 1981 and the results of this work have all been taken into account in the figures used in this Report. However, the Mediator considers that it would be helpful if he set out briefly a list of the points considered which led to adjustments to the valuation, and the amounts of those adjustments.

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
(a) <u>Buildings</u>				
(i) Reduced depreciation on regional HQ, Nairobi	1.7	1.7	-	-
(ii) Exclusion of DCA buildings belonging to Kenya Government	(1.8)	(1.8)	-	-
(iii) Exclusion of Meteorological Department training school which has been demolished	(0.3)	(0.3)	-	-
(iv) Exclusion of industrial research building, Nairobi, as construction had not started at 30 June 1977	(0.5)	(0.5)	-	-
(v) Inclusion of Muguga access road	0.6	0.6	-	-
(vi) Revised valuation of Mombasa customs house	2.5	2.5	-	-
(vii) Inclusion of DCA radar station at Machakos	0.6	0.6	-	-
(viii) Exclusion of Tanga buildings belonging to Tanzania Government	(1.1)	-	(1.1)	-
(ix) Adjustment to number of staff houses included in valuation	3.1	(1.1)	1.2	3.0
(x) Revised working lives of staff houses from 40 to 60 years	52.6	29.6	10.7	12.3
(xi) Mawenzi Gardens Phase I	1.5	1.5	-	-
(xii) Mawenzi Gardens Phase II	1.0	1.0	-	-
(xiii) Jamaa and Ahero estates	0.4	0.4	-	-
(xiv) Houses at Tabora	5.7	-	5.7	-
(xv) Extension to regional HQ, Nairobi	15.7	15.7	-	-
(xvi) Mombasa houses	2.4	2.4	-	-
	<u>84.1</u>	<u>52.3</u>	<u>16.5</u>	<u>15.3</u>
total c/f	84.1	52.3	16.5	15.3

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
b/f	84.1	52.3	16.5	15.3
<b>(b) <u>Plant, machinery and other assets</u></b>				
(i) Increase in value of book stocks of EA literature bureau	3.3	0.8	1.3	1.2
(ii) Inclusion of Cessna 402	1.1	1.1	-	-
(iii) DCA equipment at Dodoma and Mwanza	1.6	-	1.6	-
(iv) Kericho synoptic station, printing station and carpentry workshop	0.2	0.2	-	-
(v) Increased depreciation on weather radar at Arua	(0.5)	-	-	(0.5)
	<u>5.7</u>	<u>2.1</u>	<u>2.9</u>	<u>0.7</u>
Total adjustment to increase assets	<u>89.8</u>	<u>54.4</u>	<u>19.4</u>	<u>16.0</u>

Assets to be transferred

30 The transfer of assets from Kenya to Uganda is discussed more fully in paragraphs 443 to 446 of this Report. As far as GFS is concerned, the Mediator proposes that assets of value Shs 1 million be transferred. These assets, which are listed in Appendix N, have been charged to Uganda which should not have to wait until the end of the mediation negotiations to gain possession of them.

Current assets Shs 245.6 million

31 Current assets 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
Debtors	52.5	25.2	15.9	11.4
Other institutions and organisations	70.1	28.8	18.3	23.0
Cash and bank balances	<u>123.0</u>	<u>2.5</u>	<u>104.5</u>	<u>16.0</u>
Total (paragraph 13)	<u>245.6</u>	<u>56.5</u>	<u>138.7</u>	<u>50.4</u>

Note: Stores were included with plant and machinery by the Mediator's

Debtors Shs 52.5 million

32 Debtors 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
OSAS grants	2.3	1.1	0.7	0.5
Staff loans	20.0	9.8	5.9	4.3
Air charter for passages	2.1	1.0	0.7	0.4
Literature Bureau Publishing Fund	27.4	13.2	8.6	5.6
Sundry debtors	0.7	0.1	-	0.6
	<u>52.5</u>	<u>25.2</u>	<u>15.9</u>	<u>11.4</u>

There must remain considerable doubt about the collectability of many of the above amounts. The state of the old records makes it improbable that many debts could be supported by documentation; a large proportion of the debtors was estimated and the accounting system at GFS did not have a proper procedure of internal control over debtors.

Other institutions and organisations Shs 70.1 million

33 A summary of the amounts due from other institutions and organisations at 30 June 1977 is as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
East African Governments	32.3	13.2	6.4	12.7
Air Forces	3.1	1.6	-	1.5
Transfer tax	5.6	-	2.8	2.8
Other	29.1	14.0	9.1	6.0
	<u>70.1</u>	<u>28.8</u>	<u>18.3</u>	<u>23.0</u>

"Other" includes foreign governments and international institutions such as United Nations agencies.

34 Included in amounts due by East African Governments under Kenya and Uganda are amounts of Shs 6 million; these are their agreed shares of the Shs 24 million local currency portion of the original Shs 120 million loan for the construction of the Arusha headquarters (paragraph 44). Tanzania paid her portion but the other two states did not.

Cash and bank balances Shs 123.0 million

35 A summary of the bank accounts at 30 June 1977 is as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Operating accounts	9.0	(6.5)	32.0	(16.5)
Main accounts	89.9	9.1	56.1	24.7
Paying unit accounts	9.0	(0.3)	2.6	6.7
Sundry	15.1	0.2	13.8	1.1
	<u>123.0</u>	<u>2.5</u>	<u>104.5</u>	<u>16.0</u>

36 There is a difference between the amount above and that in the GFS accounts to 30 June 1977 which arises because all overseas balances have been excluded from the GFS net assets and included in long term liabilities (Appendices P and Q). This adjusts the GFS cash balances as follows:-

	Shs.m	Shs.m
Balance per GFS accounts		117.9
Add: Crown Agents' overdraft		<u>5.5</u>
		123.4
Less: Other overseas bank accounts:		
London	0.1	
Bombay	0.1	
Montreal and others	0.1	<u>(0.3)</u>
		123.1
Rounding adjustment		<u>(0.1)</u>
Total (paragraph 35)		<u>123.0</u>



37 Sundry cash accounts comprise the following:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
National and Grindlay's Bank	0.8	-	-	0.8
Departmental accounts	14.3	0.2	13.8	0.3
	<u>15.1</u>	<u>0.2</u>	<u>13.8</u>	<u>1.1</u>

Current liabilities Shs 336.6 million

38 Current liabilities comprise creditors and 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
Customs	30.0	19.2	8.0	2.8
Sundry deposits	14.9	4.5	7.8	2.6
Claims	110.5	34.5	75.1	0.9
General Fund Account	181.2	30.6	129.7	20.9
Total (paragraph 13)	<u>336.6</u>	<u>88.8</u>	<u>220.6</u>	<u>27.2</u>

Accruals

39 Because of the lack of internal control over creditors and in view of the state of the bank reconciliations it did not prove possible to include an accurate figure for accruals at 30 June 1977. Therefore estimates were made.

Customs

40 There is a substantial difference between the amount shown for customs in the GFS accounts (DR Shs 24.0 million) and the amount shown in the Customs accounts (CR Shs 30.5 million). The Mediator, in the absence of a reconciliation, has compromised by adjusting the debit balance per the GFS accounts by the claim for the cost of collection for the years ended 30 June 1976 and 1977. The debit balance has then been apportioned among the Partner States in the budget contribution ratio; and the cost of collection has been apportioned in each year in the revenue ratio applicable to that year. This may be summarised as follows:-

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Balance per GFS accounts	(24.0)	(11.6)	(7.5)	(4.9)
Cost of collection 1975/76	36.8	20.8	10.5	5.5
Cost of collection 1976/77	17.2	10.0	5.0	2.2
	<u>30.0</u>	<u>19.2</u>	<u>8.0</u>	<u>2.8</u>

Claims

41 The validity of all the claims has not yet been established. They do not include pension claims, provident fund claims, payments in lieu of notice or any other staff claims.

General fund account

42 The balance on the general fund account is partly in respect of surplus balances, built up by the GFS in the period 1971 - 1977, which have not been repaid to the Partner States, contrary to the agreed procedure; also included is an amount of Shs 26 million in respect of working capital which has been divided among the Partner States in the budget contribution ratio, i.e. in the proportions in which it was subscribed.

Loan capital

43 The loans outstanding at 30 June 1977 and the overseas assets and short-term liabilities, which the Mediator proposes dealing with separately from the other net assets, are as follows:-

	Paragraphs	Shs.m
<u>Loans</u>		
Condotte	44	124.0
Pension fund loans	45	12.1
UNDP	45	3.1
East African Governments (net of sinking funds)	45	1.1
		<u>140.3</u>
<u>Other (assets)/liabilities</u>		
Building in Montreal		(0.9)
Overdraft with Crown Agents		5.5
Other overseas bank accounts		(0.3)
		<u>144.6</u>
Total	13	<u><u>144.6</u></u>

44 The Condotte loan was advanced for the building of the EAC headquarters in Arusha. The outstanding balance at 30 June 1977 may be analysed as follows:-

	Shs.m
Original loan	120.0
Less: paid in local currency	<u>24.0</u>
Payable in Italian lire	96.0
Increase due to exchange rate fluctuation less promissory note paid 1 February 1977 of Italian lire 1.6m	2.1
Agreed escalation costs	<u>25.9</u>
	<u><u>124.0</u></u>

Under an interim agreement made between the Mediator and the Partner States, the latter are currently repaying the Condotte loan in the following proportions:-

	%
Kenya	40.15
Tanzania	36.15
Uganda	23.70
	<u>100.00</u>

The Mediator's proposals for the final settlement of the Condotte loan are set out in Part VIII of the Report.

45 The pension fund loans, UNDP loan and East African Governments' loan may be analysed as follows:-

<u>Buildings for which loan advanced</u>	<u>Period of repayment</u>	<u>Rate of interest</u> %	<u>Original loan</u> Shs.m	<u>30 June 1977</u> Shs.m
<u>Pension Fund loans</u>				
Headquarters, Nairobi	50	4	Shs 11.5m	9.1
Customs House, Mombasa	50	4½	Shs 3.4m	2.9
Housing, Mombasa	20	4½	Shs 0.9m	0.1
				<u>12.1</u>
<u>UNDP loan</u>				
Housing, Arusha		3½	\$450,000	<u>3.1</u>
<u>East African Governments' loan</u>				
Headquarters, Nairobi	repayable 1982		Shs 2.0m less sinking fund	2.0 (0.9)
				<u>1.1</u>

Details of the sinking fund investments are set out in Part IV of this Appendix.

GENERAL FUND SERVICES

III WORKING LIVES ASSESSED BY TECHNICAL EXPERTS

	<u>Life</u>	<u>Residual value not depreciated as</u>			
	<u>Yrs.</u>	<u>%</u>		<u>Yrs.</u>	
<b>Buildings</b>					
<b>Structures</b>					
Office buildings	50	20	after	40	
Staff quarters	60	20	after	48	
Workshops stores	60	20	after	48	
Finishes and fittings	20	nil	after	20	
Plant and equipment	30	nil	after	30	
<b>Plant and Machinery</b>					
<b>Movable assets</b>					
Vehicles	5	nil	after	5	
Electronic equipment	10	nil	after	5	
Office furniture	2	50	after	1	
Office and laboratory equipment	2	50	after	1	
DCA*	10 - 15	10 - 6.7	after	9 - 14	
Meteorological department	10	10	after	9	

\* Calibration aircraft subject to special valuation.

GENERAL FUND SERVICES

IV SINKING FUND INVESTMENTS AT 30 JUNE 1977

	<u>Total</u> Shs'000	<u>Kenya</u> Shs'000	<u>Tanzania</u> Shs'000	<u>Uganda</u> Shs'000
<u>East Africa Governments Loan</u>				
Kenya 4½%	53	53		
Kenya 5%	119	119		
Tanganyika 5½%	287		287	
EAHC(P & T) 5½%	50			50
EAHC(EAR & H) 5½%	264			264
Kenya 6% Local	120	120		
	<u>893</u>	<u>292</u>	<u>287</u>	<u>314</u>



EAC MEDIATIONPRINCIPAL WEAKNESSES IN THE ACCOUNTING RECORDS OF THE COMMUNITY INSTITUTIONS

This is not a comprehensive list, but is given by way of illustration of the accounting deficiencies in the EAC at the time of its collapse.

1 EA Railways

## (a) Fixed assets registers:-

- (i) not verified by physical count in Kenya in recent years;
- (ii) no detailed register of either land or earthworks. There were details only of additions and disposals since 1965;
- (iii) no reconciliation between the manual registers and the computer fixed assets register;
- (iv) no adequate control to ensure that all assets purchased in the regions were entered in the assets register;
- (v) no reconciliation between the accounting registers and the records of fixed assets kept by the engineering department. The computerised fixed assets register had not been properly up-dated since 1973;
- (vi) the computer fixed assets register did not distinguish between Kenyan and Ugandan assets (a weakness only as far as the Mediation is concerned);
- (vii) the fixed assets register indicated some 9,700 wagons and coaches for the total system, whereas the wagon control records pointed to some 11,300 wagons and coaches;
- (viii) certain items were duplicated in the assets register;
- (ix) the program for calculating depreciation was not working correctly;
- (x) no reconciliation between the fixed assets registers and the the ledger accounts.

## (b) Stock records:-

- (i) large differences between the manual stock records and the computerised stock records;
- (ii) considerable delays in the processing of documents, with the result that the latest stores ledger never reflected the current stock position;



- (iii) documents were not prepared accurately and some 30% of documents were being rejected by the computer (excluding incorrect bin numbers or quantities which the computer accepted);
- (iv) there were considerable numbers of negative balances on the stores ledger (at 31 December 1974 some 6,730 stock lines had negative balances);
- (v) the standard prices were too high. Accounting for variances between actual and standard costs was not properly done;
- (vi) lists of a limited number of items tested showed differences between the quantities recorded on the bin cards and those actually on hand.

## 2 EA P&T

- (a) Fixed assets registers:-
  - (i) not verified by a physical count;
  - (ii) no itemised plant register maintained by the Corporation;
  - (iii) the register in which total values were maintained under broad headings had not been written up since 31 December 1971. Between 1949 and 1971 it showed only the gross additions to each class in each year, with no further details;
  - (iv) the plant register was maintained on an East African basis; there were no details of plant in each region;
  - (v) no reconciliation between the accounting records and the fixed assets records of the engineering department.
- (b) Stock records:-
  - (i) there were extensive weaknesses which are listed in paragraphs 31 to 36 of Appendix "F" .

## 3 EA Airways

- (a) Fixed assets and stock records:-
  - (i) the bookkeeping had broken down during the final months, and although a number of print-outs and the results of several different physical inventories were available, there was no reliable record from which the Mediator's expert could make his valuation.
- (b) Debtors and creditors:-
  - (i) there were great and largely unexplained differences between amounts shown as owing in the last EA Airways' trial balance and amounts established as expected to be received;

- (ii) there were major differences between the creditors' position as recorded in the trial balance and the claims received subsequently. Some of these claims arose out of the collapse, some may not be valid but it is unlikely that the final figure will reconcile with the books.

4 GFS

(a) Fixed assets register:-

- (i) there was no proper plant register. Lists of plant were available for certain of the GFS organisations but not for others; no reconciliation could be made between the lists of plant and the accounts;
- (ii) there were insufficient controls on the completeness and accuracy of the lists of plant:-
- (iii) the land and buildings register had, in the words of WG2, "none of the accounting controls normally associated with such registers".

(b) Accounts:-

- (i) the last audited accounts available were for the year ended 30 June 1972;
- (ii) many of the institutions of the GFS had substantial unreconciled differences with the headquarters;
- (iii) many institutions of the GFS had not submitted monthly returns of income and expenditure;
- (iv) the filing of documents was disorganised.

(c) Cash and bank:-

- (i) reconciliations of major bank accounts had not been carried out since 1974;
- (ii) the cash books had not been properly maintained and contained major omissions and errors.

**M**

EAC MEDIATIONPRINCIPAL AREAS WHERE FIGURES IN THE MEDIATION PROPOSALS WERE ESTIMATEDA Estimates Related to All Community Institutions

- 1 Purchased Land:-  
(not valued) The study of land registers and enquiries of officials indicated that the amount of land purchased by the Community institutions was insignificant; it has therefore been included at nil value.
- 2 Investments:- The market value of investments for which no quoted price was available was estimated by reference to quoted prices for similar securities.
- 3 Stocks and Spares:- There were, in general, greater deficiencies in stores accounting than in any other area, especially at EA Railways, EA P&T, EA Airways and GFS. Estimates of goods in transit were made where necessary, and expert advice was obtained on the levels of stores to be expected. The reasonableness of the estimates was checked by comparison with figures for earlier years.

B EA Railways

- 4 Location of the Rolling Stock in Kenya and Uganda:-  
(estimated as 6,109 and 1,087 coaches and wagons in Kenya and Uganda respectively, at 30 June 1977) These estimates were based on wagon control information at 31 December 1975. Subsequent wagon control information indicated that the breakdown was a reasonable estimate for the location at 30 June 1977, but no count was conducted on that date and, with wagons crossing the border on a daily basis, the actual number of coaches and wagons in one country at any one time was, and is, uncertain.
- In 1978, an attempt was made to count the number of local wagons circulating in Uganda for internal use, but it was not properly controlled. For example, returns were not received from the following stations:-

Kumi  
 Okungolo  
 Aloj  
 Bwobo  
 Aparanga  
 Iblim  
 Namwendwa  
 Kamuli  
 Mbulamuti  
 Luzuiga

The Mediator does not, therefore, set great store on this Ugandan count. He has recommended that Ugandan and Kenyan officials should discuss the matter with a view to identifying the 1,087 coaches and wagons allocated to Uganda and placing them under Ugandan ownership and control. This proposal has been accepted by the Kenyan and Ugandan authorities.

5 Numbers of Rolling Stock  
 in Tanzania at  
 30 June 1977:-  
 (estimated at:

Wagons	3,660
Coaches	327
	<hr/>
	3,987)
	<hr/> <hr/>

As in Kenya and Uganda, totals are based on the wagon control records of EA Railways though, in the case of Tanzania, the issue is not complicated by continuing movements across national borders.

6 Kenya Region Bank  
 Balance at  
 30 June 1977:-  
 (estimated at  
 Shs 50 million)

Kenya Railways did not provide WGI with any information on the cash held after 30 June 1976 in the bank accounts of the Kenya region of EA Railways. WGI estimated a balance on the basis of the average month-end balances from 31 January 1975 to 30 June 1976, which ranged from Shs 35-70 million. To the estimated balance of Shs 50 million the Mediator added the sinking fund proceeds (Shs 23.3 million) remitted to Nairobi by the Crown Agents as, in his opinion, Kenya Railways had not shown how this sum was used. Kenya, in its memorandum of September 1980, stated that cash in Kenya at 30 June 1977 was Shs 10.1 million, made up as follows:-

Shs m

Account No 240-790-082 (overdraft)	(8.8)
Industrial Area Account	18.9
	<hr/>

After the fact finding meetings in July 1981, Kenya produced detailed schedules supporting these figures. However, the Mediator does not propose to adjust his figures accordingly, as the schedules supplied are very difficult to read and Kenya has not adequately explained why the Kenya region main account, which was comfortably in credit during the period 1 January 1975 to 30 June 1976, was overdrawn at 30 June 1977.

- 7 Equipment Missing from the 3 Ships Transferred from Kenya to Tanzania:- (estimated at Shs 0.5 million)

No list of equipment on the three ships transferred from Kenya to Tanzania in May 1978 was ever drawn up. It is therefore difficult to assess what equipment was missing at the time of the transfer. It was also difficult for the Mediator's expert to value this equipment, though he was able to confirm that at the time of his inspection in Mwanza, some four months after the transfer, equipment was missing. His attempts to obtain a copy of the lake regulations concerning equipment to be carried were unsuccessful. The Mediator has accepted his valuation of the equipment at Shs 0.5 million and has charged this amount to Kenya. This problem is also covered by the creation of the category of "miscellaneous items".

- 8 Change in Condition of Permanent Way between June 1977 and June 1979:- (estimated at nil in Kenya and Tanzania and a fall in value of Shs 28 million in Uganda)

The valuation of permanent way at 30 June 1977 was based on a physical inspection in June 1979. It was therefore necessary for the expert to estimate how far the value of the permanent way had changed over the previous two years. On the basis of discussion with officials, and an examination of maintenance records, he estimated that the value of the Ugandan permanent way had fallen by Shs 28 million, whereas in Tanzania there had been no change. Although Kenya supplied insufficient information, the expert concluded that the permanent way in Kenya was at least as good in June 1979 as it had been two years earlier.

C EA P&T

9 Overseas Bank Accounts:-  
(estimated at  
31 December 1976 at nil)

WG2 were unable to obtain any data about the following bank accounts at the division date:-

- (a) account with Mackinnon Mackenzie & Company in Bombay for paying pensioners;
- (b) account with Mackinnon & Company in Karachi for paying pensioners;
- (c) an account with the Crown Agents in London called EA P&T suspense account (not known if open at the division date).

In view of the uncertainty surrounding (c) and the absence of information about (a) and (b), these bank accounts have been estimated at nil in the Mediation Proposals.

10 Stores Debtors included in Stores:-  
(estimate at  
Shs 6 million at  
31 December 1976)

WG2 found that accounting for stores debtors had broken down. The figure in the draft balance sheet (Shs 51.6 million) proved to be wrong and a subsequent figure of Shs 28.2 million was unsupported. WG2 included an amount of Shs 6 million as being, in their opinion, a reasonable figure.

11 Stores in Transit:-

Uganda stated in its memorandum that goods in transit, in an amount of Shs 13.3 million, which were destined for Uganda, had not arrived. WG2 were unable to establish the facts one way or another. Kenya has no knowledge of these goods and so the Mediator concluded that the most equitable solution was to assume that only half of the goods had arrived and that half remained in Kenya.

12 Value of Batteries and Rectifiers in Tanzania:-  
(estimated at  
Shs 2.5 million at  
31 December 1976)

The expert estimated the value of these on the basis of the value of switching and transmission equipment.

- 13 Plant and Equipment in Training Schools and Workshops:-  
(estimated at 31 December 1976 at:
- |          | Shs m                      |
|----------|----------------------------|
| Kenya    | 40                         |
| Tanzania | 13                         |
| Uganda   | 7                          |
|          | <hr style="width: 100%;"/> |
|          | 60)                        |
|          | <hr style="width: 100%;"/> |
- Unable to get information about the plant and equipment in the schools and workshops, the experts made an estimate, after consulting other authorities, including the International Postal Union and the Swiss Postal Organisation, on the basis of the proportion of total plant and equipment which could be expected to be found in training schools and workshops.
- D EA Airways
- 14 Goods in Transit:-  
(estimated at Shs 10 million at 15 February 1977)
- No information was available for goods in transit at 15 February 1977, in spite of the tripartite working group set up at the fact-finding meeting in May 1979 to examine, inter alia, this problem. The last trial balance of EA Airways at 31 January 1977 indicated goods in transit at Shs 15 million and the Mediator included Shs 10 million as a best estimate.
- 15 Sundry Overseas Cash and Other Assets:-  
(estimated at Shs 5 million at 15 February 1977)
- This is the estimated amount that Kenya will receive from repossession of overseas bank accounts and the use of unexpired leases and consumable assets by Kenya Airways. In making this estimate, it has been assumed that Kenya has probably gained some advantage from any consumable assets and stores in Nairobi at the time of the collapse of EA Airways which were not brought under the control of the Liquidator.
- E GFS
- 16 Central Stores of DCA and Meteorological Department:-  
(estimated at 30 June 1977 in amounts of Shs 60 million and Shs 8.3 million respectively)
- Estimates by the Mediator's experts were based on discussions with supply officers.



**N**

Assets to be transferred from Kenya to Uganda

The assets which Kenya should transfer to Uganda are the following:-

- (a) Equipment for Lugala project:
  - (i) 1 bulldozer
  - (ii) water pipes
  - (iii) 1 motor boat
  
- (b) Equipment for East Africa Trypanosomiasis Research Organisation, Tororo:
  - (i) 1 binocular microscope - Zeiss
  - (ii) 1 binocular microscope - Vickers
  - (iii) 1 spectrophotometer
  - (iv) 1 spectrophotometer SP 800 A
  - (v) 1 deep freezer
  - (vi) 1 computer
  - (vii) 2 gas chromatographs
  - (viii) 1 refrigerator
  - (ix) 1 typewriter - Olivetti
  - (x) 1 ultra microtome
  
- (c) Vehicles from EATRO
  - (i) Tractor - Muir-hill 121 and accessories
  - (ii) Bedford lorry - KPS 352 (1972)
  - (iii) Range Rover - KQJ 826 (1975)
  - (iv) VW Kombi - KQQ 749 (1975)
  - (v) Peugeot 504 station wagon - KQH 353 (1975)
  - (vi) Land Rover station wagon - KQJ 605 (1975)
  - (vii) Land Rover wagon KQJ 606 (1975)
  - (viii) Motor boat for Lugala
  
- (d) World Trypanosome Bank
  
- (e) Vehicles belonging to EAAFRO Sorghum and Millet Unit, Serere
  - (i) Land Rover - KPE 554
  - (ii) Land Rover - KNF 121
  - (iii) Peugeot 404 station wagon - KPF 832
  - (iv) Ford Escort - KPH 641
  - (v) Jeep wagon - UUX 283



EAST AFRICA COMMUNITY MEDIATIONForeign long-term loan liabilities analysed by lender

	Balance at		Kenya	Tanzania	Uganda
	<u>division</u>	<u>dates</u>			
	£m	Shs.m	Shs.m	Shs.m	Shs.m
<u>GOVERNMENT LOANS</u>					
<u>British Government</u>					
EA Railways					
1961 £Stg 7.5 million 6½%					
1986 Exchequer	6.0	49.5	21.3	16.4	11.8
1965 £Stg 3.15 million 7.1%					
1984 ECGD	2.8	23.2	10.0	7.6	5.6
1970 £Stg 1.0 million 1995	1.6	13.2	5.8	4.5	2.9
1970 £Stg 1.0 million 5½%					
1995 Commercial Credit	1.0	8.5	3.8	2.8	1.9
EA P&T					
1961/88 6½% Exchequer	0.7	5.9	2.6	2.0	1.3
1963/88 5½% Exchequer	0.3	2.4	1.1	0.8	0.5
EA Harbours					
1961 £Stg 1.9 million 6½%					
Exchequer	1.9	16.1	7.1	5.4	3.6
	<u>14.3</u>	<u>118.8</u>	<u>51.7</u>	<u>39.5</u>	<u>27.6</u>
<u>West German Government</u>					
EA Railways					
1964 AL 634 DM 8.96 million	1.3	11.2	4.9	3.7	2.6
1971 AL 60 DM 8.6 million	3.7	30.8	13.6	10.4	6.8
	<u>5.0</u>	<u>42.0</u>	<u>18.5</u>	<u>14.1</u>	<u>9.4</u>
<u>Zambia Government</u>					
EA Harbours	1.6	13.0	-	13.0	-
Total Government loans	<u>20.9</u>	<u>173.8</u>	<u>70.2</u>	<u>66.6</u>	<u>37.0</u>

Foreign long-term loan liabilities analysed by lender

	Balance at		<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	<u>division</u>	<u>dates</u>			
	<u>\$m</u>	<u>Shs.m</u>	<u>Shs.m</u>	<u>Shs.m</u>	<u>Shs.m</u>
<u>INTERNATIONAL AGENCIES</u>					
<u>IBRD</u>					
EA Railways					
No 428-1 EA	30.9	257.0	112.3	80.3	64.4
No 674 EA	31.2	259.5	113.3	81.1	65.1
EA P&T					
No 483 EA	13.4	111.0	48.5	34.7	27.8
No 675 EA	9.6	79.6	34.8	24.9	19.9
No 914 EA	21.9	181.7	79.4	56.8	45.5
EA Harbours					
No 428-2 EA	6.8	56.7	24.8	17.7	14.2
No 638 EA	31.5	262.0	114.4	81.9	65.7
No 865 EA	24.5	204.1	89.1	63.8	51.2
	<u>169.8</u>	<u>1,411.6</u>	<u>616.6</u>	<u>441.2</u>	<u>353.8</u>
<u>Canadian International Development Agency</u>					
EA Railways	13.2	109.5	48.4	37.0	24.1
EA Harbours	31.1	258.4	114.2	87.4	56.8
	<u>44.3</u>	<u>367.9</u>	<u>162.6</u>	<u>124.4</u>	<u>80.9</u>
<u>International Co-operation Administration</u>					
EA Harbours	0.2	1.5	0.7	0.5	0.3
<u>UNDP</u>					
GFS	0.4	3.1	-	3.1	-
Total International Agencies	<u>214.7</u>	<u>1,784.1</u>	<u>779.9</u>	<u>569.2</u>	<u>435.0</u>
<u>COMMERCIAL LOANS</u>					
EA P&T					
C Itoh Credit	3.2	26.5	26.5	-	-
Cable and Wireless	0.8	6.7	2.8	1.3	2.6
EA Airways					
British Aerospace (BAC)	7.5	62.1	62.1	-	-
Eximbank - DC9's	5.5	45.7	30.5	15.2	-
McDonnell Douglas - DC9's	0.6	5.1	3.4	1.7	-
EA Extelcoms					
Marconi Communications Ltd	0.2	1.6	1.6	-	-
GFS					
Condotte	14.9	124.0	-	124.0	-

Foreign long-term loan liabilities analysed by lender

	Balance at		<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>
	<u>division</u>	<u>dates</u>			
	<u>\$m</u>	<u>Shs.m</u>	<u>Shs.m</u>	<u>Shs.m</u>	<u>Shs.m</u>
<u>CROWN AGENTS</u>					
EA Railways' overdraft	3.9	32.8	-	15.2	17.6
EA P&T overdraft	3.3	27.2	7.9	3.9	15.4
GFS overdraft	0.7	5.5	2.4	1.9	1.2
	<u>7.9</u>	<u>65.5</u>	<u>10.3</u>	<u>21.0</u>	<u>34.2</u>

Note: The total balances have been converted to dollars at the rate of Shs 8.31542 to \$1.



EAST AFRICAN COMMUNITY MEDIATIONDivision of Long-term Loan Liabilities Among the Partner States in Accordance with Alternative A

	Balance at division date	Kenya	Tanzania	Uganda
	Shs.m	Shs.m	Shs.m	Shs.m
<u>Loans Repayable Within Specific Partner States</u>				
<u>EA Railways</u>				
1954 £Stg 5 million 4% 1973/76	6.8	5.4	1.3	0.1
1956 £Stg 3.5 million 5½% 1980/84 - local register	1.6	1.6	-	-
1957 £Stg 8.5 million 5¾% 1977/83 - local register	4.0	3.7	0.2	0.1
1975 £Stg 5.9 million 9% 1977	97.8	89.0	8.8	-
1970 K£ 1.0 million 6¾% 1990	22.7	8.6	6.8	7.3
1970 K£ 1.0 million 6¾% 1990 - sinking fund	(0.7)	(0.3)	(0.2)	(0.2)
1971 K£ 3.4 million 6¾% 1986	45.4	32.1	9.5	3.8
1971 K£ 3.4 million 6¾% 1986 - sinking fund	(0.8)	(0.5)	(0.2)	(0.1)
EA Government loans	150.0	50.0	50.0	50.0
	<u>326.8</u>	<u>189.6</u>	<u>76.2</u>	<u>61.0</u>
<u>EA P&amp;T</u>				
1949 Initial conversion (1979) 3%	3.2	1.7	0.7	0.8
Depreciation loans	9.6	4.7	2.3	2.6
Zanzibar Government loan	13.5	-	13.5	-
	<u>26.3</u>	<u>6.4</u>	<u>16.5</u>	<u>3.4</u>
<u>EA Harbours</u>				
1956 £Stg 0.5 million 5½% 1980/84 - local register	0.3	0.3	-	-
1957 £Stg 1.0 million 5¾% 1977/83 - local register	0.4	0.4	-	-
1971 EAR&H 6¾% 1986	29.1	20.6	6.1	2.4
	<u>29.8</u>	<u>21.3</u>	<u>6.1</u>	<u>2.4</u>
<u>EA Airways</u>				
DC9 loans				
National Bank of Kenya	10.3	10.3	-	-
Bank of Commerce, Tanzania	9.7	-	9.7	-
Uganda	2.0	-	-	2.0
B707 Loan - National Bank of Kenya	41.7	41.7	-	-
Special loan - National Bank of Kenya	18.9	18.9	-	-
	<u>82.6</u>	<u>70.9</u>	<u>9.7</u>	<u>2.0</u>



Division of Long-term Loan Liabilities Among the Partner States in Accordance  
with Alternative A (continued)

	Balance at division date	Kenya	Tanzania	Uganda
	Shs.m	Shs.m	Shs.m	Shs.m
<u>EA Ertelcoms</u>				
Standard and Chartered Bank, Tanzania	6.4	-	6.4	-
Tanzania Investment Bank	13.0	-	13.0	-
Consortium loan	17.0	-	-	17.0
Grindlays Bank (Uganda) Limited	12.0	-	-	12.0
	<u>48.4</u>	<u>-</u>	<u>19.4</u>	<u>29.0</u>
<u>EA GFS</u>				
East African Governments loan	2.0	0.7	0.7	0.6
East African Governments - sinking fund	(0.9)	(0.3)	(0.3)	(0.3)
	<u>1.1</u>	<u>0.4</u>	<u>0.4</u>	<u>0.3</u>
Total Loans Repayable Within Specific Partner States	<u>515.0</u>	<u>288.6</u>	<u>128.3</u>	<u>98.1</u>
<u>Other Loans Allocated Specifically</u>				
<u>EA Railways</u>				
British Government loans in which Uganda was in default at the division date				
1961 £Stg 7.5 million 6½% 1986 Exchequer	1.2	-	-	1.2
1965 £Stg 3.15 million 7.1% 1984 ECGD	0.7	-	-	0.7
1964 AL634 DM 8.96 million	0.2	-	-	0.2
Overdraft with Crown Agents	32.8	-	15.2	17.6
	<u>34.9</u>	<u>-</u>	<u>15.2</u>	<u>19.7</u>
<u>EA P&amp;T</u>				
C Itoh credit	26.5	26.5	-	-
Cable and Wireless loan	6.7	2.8	1.3	2.6
Overdraft with Crown Agents	27.2	7.9	3.9	15.4
Overseas and headquarters bank accounts	(3.7)	-	-	(3.7)
	<u>56.7</u>	<u>37.2</u>	<u>5.2</u>	<u>14.3</u>
<u>EA Harbours</u>				
Zambia government loan	13.0	-	13.0	-
	<u>13.0</u>	<u>-</u>	<u>13.0</u>	<u>-</u>

Division of Long-term Loan Liabilities Among the Partner States in Accordance  
with Alternative A (continued)

	Balance at division date		Tanzania	Uganda
	Kenya	Kenya	Shs.m	Shs.m
	Shs.m	Shs.m	Shs.m	Shs.m
<u>EA Airways</u>				
VC10 loan - BAC	62.1	62.1	-	-
Overseas assets	(150.2)	(150.2)	-	-
Overseas short-term liabilities	46.4	46.4	-	-
DC9 loans - \$ loan				
Eximbank	45.7	30.5	15.2	-
McDonnell Douglas	5.1	3.4	1.7	-
	<u>9.1</u>	<u>(7.8)</u>	<u>16.9</u>	<u>-</u>
<u>EA Extelcoms</u>				
Marconi Communications Limited	1.6	1.6	-	-
	<u>1.6</u>	<u>1.6</u>	<u>-</u>	<u>-</u>
<u>Cargo Handling</u>				
Debenture	4.6	4.6	-	-
Harbours' unsecured loan	22.5	22.5	-	-
	<u>27.1</u>	<u>27.1</u>	<u>-</u>	<u>-</u>
<u>GFS</u>				
Condotte loan	124.0	-	124.0	-
Pension fund loan	12.1	12.1	-	-
UNDP loan	3.1	-	3.1	-
Building in Montreal	(0.9)	-	-	(0.9)
	<u>138.3</u>	<u>12.1</u>	<u>127.1</u>	<u>(0.9)</u>
Total Other Loans Allocated Specifically	<u>280.7</u>	<u>70.2</u>	<u>177.4</u>	<u>33.1</u>

Other International Loans (excluding  
IBRD) Allocated in Proportion to the  
Equitable Division of Net Assets  
(paragraph 811)

<u>EA Railways</u>				
1956 £Stg 3.5 million 5 $\frac{1}{2}$ % 1980/84 - London register	41.5	18.3	14.1	9.1
1956 £Stg 3.5 million 5 $\frac{1}{2}$ % 1980/84 - sinking fund	(19.2)	(8.5)	(6.5)	(4.2)
1957 £Stg 8.5 million 5 $\frac{3}{4}$ % 1977/83 - London register	103.2	45.6	34.9	22.7
1957 £Stg 8.5 million 5 $\frac{3}{4}$ % 1977/83 - sinking fund	(44.8)	(19.8)	(15.1)	(9.9)
Carried forward	<u>80.7</u>	<u>35.6</u>	<u>27.4</u>	<u>17.7</u>

Division of Long-term Loan Liabilities Among the Partner States in Accordance  
with Alternative A (continued)

	Balance at			
	division date	Kenya	Tanzania	Uganda
	Shs.m	Shs.m	Shs.m	Shs.m
Brought forward	80.7	35.6	27.4	17.7
British Government loans				
1961 £Stg 7.5 million 6½% 1986 Exchequer	48.3	21.3	16.4	10.6
1965 £Stg 3.15 million 7.1% 1984 ECGD	22.5	10.0	7.6	4.9
1970 £Stg 1.0 million 1995	13.2	5.8	4.5	2.9
1970 £Stg 1.0 million 5½% 1995 Commercial Credit	8.5	3.8	2.8	1.9
West German loans				
1964 AL634 DM 8.96 million	11.0	4.9	3.7	2.4
1971 AL60 DM 8.6 million	30.8	13.6	10.4	6.8
CIDA loan	109.5	48.4	37.0	24.1
Unallocated loan interest	5.4	2.4	1.8	1.2
	<u>329.9</u>	<u>145.8</u>	<u>111.6</u>	<u>72.5</u>
<u>EA P&amp;T</u>				
1957 EAHC £Stg 3.0 million 5¾% 1977/83	42.9	18.9	14.5	9.5
1957 EAHC £Stg 3.0 million 5¾% 1977/83 - sinking fund	(15.2)	(6.7)	(5.1)	(3.4)
British Government loans				
1961/88 6½% Exchequer	5.9	2.6	2.0	1.3
1963/88 5½% Exchequer	2.4	1.1	0.8	0.5
	<u>36.0</u>	<u>15.9</u>	<u>12.2</u>	<u>7.9</u>
<u>EA Harbours</u>				
1956 £Stg 0.5 million 5½% 1980/84 - London register	6.9	3.0	2.3	1.6
1956 £Stg 0.5 million 5½% 1980/84 - sinking fund	(3.2)	(1.4)	(1.1)	(0.7)
1957 £Stg 1.0 million 5¾% 1977/83 - London register	14.4	6.4	4.9	3.1
1957 £Stg 1.0 million 5¾% 1977/83 - sinking fund	(6.2)	(2.7)	(2.1)	(1.4)
1946 Supplementary Fund Kenya 2½% - sinking fund	(2.5)	(1.1)	(0.8)	(0.6)
International Co-operation Administration	1.5	0.7	0.5	0.3
British Government loans				
1961 £Stg 1.9 million 6½% Exchequer	16.1	7.1	5.4	3.6
CIDA	<u>258.4</u>	<u>114.2</u>	<u>87.4</u>	<u>56.8</u>

Division of Long-term Loan Liabilities Among the Partner States in Accordance  
with Alternative A (continued)

	Balance at division date Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m
<u>GFS</u>				
Crown Agents overdraft	5.5	2.4	1.9	1.2
Overseas bank accounts				
London	(0.1)	(0.1)	-	-
Bombay	(0.1)	-	(0.1)	-
Montreal and others	(0.1)	-	-	(0.1)
	<u>5.2</u>	<u>2.3</u>	<u>1.8</u>	<u>1.1</u>
Total Other International Loans (excluding IBRD)	<u>656.5</u>	<u>290.2</u>	<u>222.1</u>	<u>144.2</u>
IBRD Loans Allocated 43.7% to Kenya, 31.2% to Tanzania and 25.1% to Uganda (Report paragraph 811)				
<u>EA Railways</u>				
No 428-1 EA	257.0	112.3	80.3	64.4
No 674 EA	259.5	113.3	81.1	65.1
<u>EA P&amp;T</u>				
No 483 EA	111.0	48.5	34.7	27.8
No 675 EA	79.6	34.8	24.9	19.9
No 914 EA	181.7	79.4	56.8	45.5
<u>EA Harbours</u>				
No 428-2 EA	56.7	24.8	17.7	14.2
No 638 EA	262.0	114.4	81.9	65.7
No 865 EA	204.1	89.1	63.8	51.2
Total IBRD loans	<u>1,411.6</u>	<u>616.6</u>	<u>441.2</u>	<u>353.8</u>

Summary

Loans payable in specific Partner States	515.0	288.6	128.3	98.1
Other loans allocated specifically	<u>280.7</u>	<u>70.2</u>	<u>177.4</u>	<u>33.1</u>
	795.7	358.8	305.7	131.2
Other international loans (excluding IBRD)	656.5	290.2	222.1	144.2
IBRD loans	<u>1,411.6</u>	<u>616.6</u>	<u>441.2</u>	<u>353.8</u>
Final debt burden at division dates				



EAST AFRICAN COMMUNITY MEDIATIONDivision of Long-term Loan Liabilities Among the Partner States in Accordance  
with Alternative B

	Balance at division date Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m
<u>Unaltered From Alternative A (Appendix "P")</u>				
Loans payable in specific Partner States	515.0	288.6	128.3	98.1
Other loans allocated specifically	280.7	70.2	177.4	33.1
	795.7	358.8	305.7	131.2
Other international loans (excluding IBRD loans)	656.5	290.2	222.1	144.2
	1,452.2	649.0	527.8	275.4
<u>IBRD Loans Allocated 64.8% to Kenya and 35.2% to Tanzania (Report paragraph 814)</u>				
<u>EA Railways</u>				
No 428-1 EA	257.0	166.6	90.4	-
No 674 EA	259.5	168.2	91.3	-
<u>EA P&amp;T</u>				
No 483 EA	111.0	72.0	39.0	-
No 675 EA	79.6	51.6	28.0	-
No 914 EA	181.7	117.8	63.9	-
<u>EA Harbours</u>				
No 428-2 EA	56.7	36.8	19.9	-
No 638 EA	262.0	169.8	92.2	-
No 865 EA	204.1	132.3	71.8	-
Total IBRD Loans	1,411.6	915.1	496.5	-
Final debt burden at division dates (Report paragraph 815)	2,863.8	1,564.1	1,024.3	275.4



ASSESSMENT OF PENSION FUND LIABILITIES AND THEIR  
DIVISION AMONG THE PARTNER STATES

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1 GAD was asked by the Mediator to advise on the following organisations:-

EA Railways  
EA P&T  
EA Harbours  
EA Airways  
EA Extelcoms  
EA Cargo Handling  
EA Aeradio  
GFS

Types of superannuation provision

2 The organisations provided superannuation benefits in the following ways:-

- (a) Pension schemes. These provide pensions on retirement and a lump sum on death in service.
- (b) Widows and orphans' pension schemes.
- (c) Provident funds. These are similar to savings banks; accounts are kept of the contributions paid by each member, the corresponding employer's contributions, and the interest credited. The total amount in the individual's account is paid out in specified circumstances, such as death and retirement.
- (d) Compassionate gratuity schemes. These provide a lump sum on retirement or on death in service to non-pensionable staff. The benefit is paid at the discretion of the organisation but, at least for EA Railways and EA Harbours, was in practice paid to all eligible staff.

Provident funds

3 EA Airways, EA Cargo Handling and GFS all had provident funds. No actuarial valuation of the liabilities of provident funds is necessary



because at any one time they are the total of the members' accounts and should equal the assets. If liabilities exceed assets, it can be only because some assets are worthless. Assets may exceed liabilities if the rate of interest credited to members' accounts has been less than the rate earned by the fund, in which case any excess of assets should be divided among members in proportion to their accounts. It should be simple, and correct, to divide the liabilities and assets between the countries concerned in proportion to the total accounts for citizens of each country, or for those individuals for whom each country accepts responsibility.

#### Externally administered pension funds

4 EA Extelcoms and EA Cargo Handling had externally administered pension schemes. EA Extelcoms had three funds, all insured with insurance companies, one of which was exclusively for Tanzanians. EA Cargo Handling had two funds, one for Kenyans and one for Tanzanians.

#### General features of the internally administered pension schemes

5 EA Railways, EA P&T, EA Harbours and GFS all have pension schemes for staff in pensionable grades, which they administered themselves. The benefits and the circumstances in which they were paid were very similar in all four organisations. Briefly, a pension was paid at retirement, on the grounds of ill-health or age, of 1/50 of salary near to retirement for each year of service; up to one-quarter of the pension might be surrendered for a lump sum. On death in service, a lump sum equal to one year's salary was paid. Employees did not contribute.

6 Staff in non-pensionable grades might receive a compassionate gratuity (see paragraph 2) of 1/12 of salary near retirement or death per year of service, which was paid at retirement or on death in service. However, only in EA Railways and EA Harbours were the gratuity schemes important.

7 EA Railways and EA Harbours had widows' pension schemes for European and Asian staff only. The pensions were not based on the husbands' pensions, but were calculated from actuarial tables according to the contributions paid by the husbands.

### Provision for pension liabilities

8 All four organisations obtained actuarial advice at some time on the contributions required to maintain a fund to provide for pension liabilities. Apart from EA Railways, the organisations kept their pension funds separate from their other assets and accounts, but they borrowed money from the pension funds, sometimes at rates of interest unfavourable to the funds.

9 EA Railways had a different system. They maintained a notional account of the pension contributions due from the Corporation, and of interest credited on the balance of the account, less benefits paid. The accrued total was known as the "provision for pensions". Separate notional accounts were maintained for staff pensions, for widows' pensions, and for gratuities for non-pensionable staff. No advice was obtained on the contributions needed for gratuities. GAD was told that it was taken as 20% of salaries, but considered that, if this was so, the accrued provision at 31 December 1974 seemed low relative to that for pensions; however, in GAD's opinion 20% would have been too high a rate. The contribution for staff pensions is 20% of salaries, but the origin of this rate is obscure. Nearly all of the provision for widows' pension, and some of that for staff pensions, has been rendered unnecessary as a result of the take-over agreement with the UK Government.

10 Part of the assets of the EA Railways' pension fund consisted of investments outside the EA Railways, for example in government stocks. Part consisted of EA Railways and Harbours Corporation stock, some of which was issued especially for the pension fund, so that in effect, contributions which could have been invested externally were lent to the Corporation, which promised to repay by redeeming the Corporation stock.

11 When the East African Railway and Harbours Administration was divided into two separate Corporations on 30 June 1969, an actuary recommended how the pension fund assets should be divided between the new Corporations. EA Harbours claim that they did not receive their share of certain assets; present Kenya Railways' officials say they know nothing about this.

12 Although the Corporations and the GFS made provisions for pensions in their accounts, GAD concluded that none of these provisions had any real meaning. Apart from their uncertain basis, they would have needed adjustment for the relief of liability following the UK take-over.

13 EA Railways had schemes to provide pensions to widows of its European and Asian employees; some EA Harbours' staff were also covered by these schemes. The UK Government has accepted liability for the whole of the pension payable to the widow of any man, ie the great majority of the Europeans and many Asians, whose pension will be taken over. GAD was unable to estimate the liability remaining with the Corporation without a special investigation, as the widow's pension was not based on the husband's pension or salary. However, GAD advised the Mediator to ignore this liability, which would be small, relative to that for employees' pensions.

#### Assessment of liabilities for pensions and gratuities

14 The liabilities have been assessed as the discontinuance liabilities as at 30 June 1977, defined as covering liabilities for pensions in respect of Community service up to the break-up of the Community (and, of course, pensions in payment for those who had already retired at that date). The liabilities have therefore been assessed as the capital sums required as at 30 June 1977 to provide the pensions then in payment for which the organisations were liable, and the pensions accrued to that date for staff then in service, calculated on their service up to that date and their salaries at that date. The capital sums therefore represent the value of the benefits which had been earned by service in the Community organisations. If pensions are regarded as deferred pay, then the member has already received his cash pay for past service and is entitled to a pension for that service. From another point of view, it would be reasonable for the fund to pass to a new employer sufficient money to provide the benefits for that service, leaving the new employer to provide the pension for service with him. The calculations are as follows:-

- (a) Pensions in payment. The liability is based on the amounts in payment on 30 June 1977, except for Uganda Railways (paragraph 16). No allowance has been made for any future increase, because past

and future increases will be at the discretion of the new organisations. The calculation takes no account of the pensions paid through agents abroad and pensions which will be taken over in the UK.

- (b) Active staff. The liability has been based on the benefits accrued to 30 June 1977, except for Uganda Railways (paragraph 16), based on estimated service and salaries at that date. Estimates have been made (a) with and (b) without an allowance for future salary increases between 30 June 1977 and the dates of retirement of the staff. In favour of (a), it may be argued that an employee's expectation of benefits earned by service to 30 June 1977 is based not on his salary then but on his salary at retirement, and that if a new employer with a similar pension scheme credits Community service as service in his scheme, he will incur a liability based on the employee's salary at retirement. In favour of (b), it may be argued that if an organisation were wound up, it would be unlikely to provide anything more than deferred benefits calculated on service and salary at the date of winding up, and that salary increases granted by a new employer accepting Community staff are the responsibility of the new employer.

15 The rates of mortality and resignation assumed in estimating the liabilities were based on those used for past valuations. For estimates allowing for future salary increases, GAD assumed the rates of increase with age arising from promotion and seniority used for past valuations, together with a general increase due to inflation of 4% a year. In order to compare the present value of estimated future benefits with the market value of the assets at 30 June 1977, GAD assumed a rate of discount of 7% a year, which is about the rate obtainable in recent years on stocks issued by the Partner States.

16 Except for Uganda Railways, which did not supply any recent data, the organisations provided information on the total amounts of pensions and of salaries of pensionable and non-pensionable staff paid by each country in June 1977. GAD used this information, together with the more extensive information provided for the most recent actuarial valuations of the pension funds, to make a rough assessment of the liabilities. The estimated liabilities for gratuities are even less accurate than those for pensions because these liabilities have never been actuarially appraised.

The estimates for Uganda Railways are necessarily

17 On the bases described above, the estimated liabilities as at 30 June 1977 which will fall on the corresponding new organisations in each country are given in the table below. As mentioned in paragraph 13, the figures exclude the small but unquantifiable liability for widows' pensions remaining with EA Railways.

(a) Liabilities (as defined in paragraph 14) with allowance for future salary increases

	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m	<u>Total</u> Shs.m
<b>EA Posts &amp; Telecommunications:</b>				
Pensions	215	115	80	410
Gratuities	vs	vs	0.7	
Division of pensions liability	52%	28%	20%	
<b>EA Harbours:</b>				
Pensions	46	38	nil	84
Gratuities	5	na	nil	
Division of pensions liability	55%	45%	nil	
<b>EA Railways:</b>				
Pensions	222	97	30	349
Gratuities	29	26	na	
Division of pensions liability	64%	28%	8%	
<b>General Fund Services:</b>				
Pensions	149	94	42	285
Gratuities	vs	vs	vs	
Division of pensions liability	52%	33%	15%	

(b) Liabilities (as defined in paragraph 14) with no allowance for future salary increases

	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m	<u>Total</u> Shs.m
<b>EA Posts &amp; Telecommunications:</b>				
Pensions	128	70	46	244
Gratuities	vs	vs	0.4	
Division of pensions liability	52%	29%	19%	
<b>EA Harbours:</b>				
Pensions	28	23	nil	51
Gratuities	2	na	nil	
Division of pensions liability	55%	45%	nil	
<b>EA Railways:</b>				
Pensions	160	65	19	244
Gratuities	15	13	2	
Division of pensions liability	65%	27%	8%	
<b>General Fund Services:</b>				
Pensions	75	11	--	

Note: na Not available  
vs Very small

GAD considered that the liability for gratuities in EA Railways in Tanzania seemed high, but had no means of checking the information on which it was based.

18 It will be seen that the percentage division of the total liabilities for each country is nearly the same (a) with, or (b) without, an allowance for future salary increases. The liabilities on assumption (a) are closer to the liabilities which would be incurred by a scheme which had pension provisions similar to those of the organisations, and which gave credit in its scheme for service in the organisations on a year to year basis. However, these liabilities include a necessarily somewhat speculative allowance for future inflation of salaries; the liabilities on assumption (b) exclude this element.

#### Article 83 of the Treaty for East African Co-operation

19 In brief, this article prescribed that net accruals to pension funds after a certain date should be invested in Partner State stocks, having regard to the relative provision made each year in respect of pensions for the citizens of each Partner State employed in the service of each organisation. This was not done, and the actual amount of Partner State stocks held by each pension fund is no guide whatever to the relative liabilities of each State. In the Mediator's opinion, a division based on the value of liabilities, as in paragraphs 17, is the most equitable.

#### Pensions paid through overseas agents, not taken over by the UK

20 The liability for these pensions was excluded from the tables in paragraph 17. A very rough estimate of the capital sum needed to secure these pensions, if invested in East African stocks at, say, 7% a year interest, is 35 million shillings (subject to a large margin of error). GAD was unable to divide this total between organisations or countries.

#### Railways and Harbours' widows and orphans' pensions: implementation of bonuses

21 GAD reported to the Mediator that the remaining liability for widows and orphans' pensions was very small and could be ignored in assessing the

liabilities of the organisations (paragraph 13). Actuarial reviews were made as at 31 May 1969 of the three widows and orphans' pension schemes of the former East African Railways and Harbours Corporation. No specific assets were allocated for widows' pensions, and the assets were taken as the provision in the accounts, this being the accrued excess of actual contributions by members and, for the Asian scheme, deemed contributions by the Corporation, plus a credit for interest, over outgo. In all three schemes the provision exceeded the liabilities. In the case of the scheme for Asians, the actuary (the then UK Government actuary) said that the surplus provision would be sufficient to cover the cost of a bonus of 22 $\frac{1}{2}$ % on pensions in payment (on 31 May 1969) and on that part of registered pensions purchased by contributions made before 31 May 1969. In the case of the two schemes for Europeans he said that it was for consideration whether a part of the surplus provision should be used to improve benefits; a possible reason for this difference in approach was that the tables by which benefits were calculated for Europeans were identical with, or very similar to, schemes for other Europeans in East Africa for which no "provisions" or paper accounts were maintained, and hence for whom a surplus could not arise.

22 The decision as to whether to give the bonus to the Asian members was for the Corporation. GAD surmised that, as no specific assets were held against these pension liabilities, the Corporation was reluctant to incur a further liability by increasing the liability for pensions. On the other hand, members themselves had paid contributions which had effectively, at least in part, been used by the Corporation as revenue to pay running expenses or for capital. The expert considered that it would in practice be a very difficult and expensive administrative task to implement the bonus now, because records of widows' pensions in payment in 1969, and of the registered pensions and contributions in 1969 of members who were contributing, or had retired, would be required. There were nearly 3,000 members and widows in 1969 and, in view of the general state of records in East Africa, it is very doubtful if the exercise is possible. It is not just a matter of increasing by 22 $\frac{1}{2}$ % all pensions now in payment or which will be paid to widows on the deaths of the recipients. There is also the question of whether retrospective payments of bonus should be made.

23 If the bonus were given it would not alter the figures in paragraph 17, because they exclude liabilities for widows' pensions. Unless cash was available, much of the cost of a bonus would fall on the UK Government, because it has taken over most of the Asian widows' pensions.





EAST AFRICAN COMMUNITY MEDIATION

PROPOSED DIVISION OF PENSION FUND INVESTMENTS

EA Railways (30 June 1977)

Stock	Nominal value	Market value		Allocation				
		£'000	Shs.m	Kenya Shs.m	Tanzania Shs.m	Uganda Shs.m		
<u>Own Agents Holdings</u>								
EAHC 5½%	1980/84	£1,608,634	1,029	14.7	-	14.7	-	
EAHC (R&H) 5¾%	1977/83	£3,427,734	2,365	33.8	-	33.8	-	
EAHC (P&T) 5¾%	1977/83	£ 232,816	161	2.3	-	-	2.3	
Kenya 3½%	1973/78	£ 627,487	583	8.3	8.3	-	-	
Kenya 4½%	1971/78	£ 439,378	409	5.9	5.9	-	-	
Kenya 5%	1978/82	£ 96,981	70	1.0	1.0	-	-	
Tanganyika 5¾%	1978/82	£ 99,534	74	1.1	-	1.1	-	
JMF		£1,871,860	1,£72	26.7	19.6	5.5	1.6	
				<u>6,563</u>	<u>93.8</u>	<u>34.8</u>	<u>55.1</u>	<u>3.9</u>
<u>Local Holdings</u>								
EAHC 4%	1973/76	£ 244,603		3.5	-	-	3.5	
EAHC 5¾%	1977/83	£ 2,484		-	-	-	-	
EAR&H 9%	1977	£4,494,868		64.4	64.4	-	-	
EAR&H 6¾%	1986	K£1,973,561		35.7	35.7	-	-	
Kenya 3%	1970/75	K£ 185,200		3.7	3.7	-	-	
Kenya 4½%	1971/78	£ 105,379		1.4	1.4	-	-	
Kenya 7%	1992	K£ 501,331		8.8	8.8	-	-	
Kenya 6½%	1987	K£ 100,000		1.8	1.8	-	-	
Tanzania 6½%	1987	T£ 125,000		2.4	-	2.4	-	
Tanzania 7%	1992	T£ 532,130		9.7	-	9.7	-	
Uganda 6½%	1987	U£ 50,000		0.9	-	-	0.9	
Uganda 6¾%	1986	U£ 242,530		4.8	-	-	4.8	
Uganda 6¾%	1987	U.Shs 1,967,200		1.9	-	-	1.9	
Uganda 7%	1992	U£ 157,990		2.9	-	-	2.9	
				<u>141.9</u>	<u>115.8</u>	<u>12.1</u>	<u>14.0</u>	
				<u>235.7</u>	<u>150.6</u>	<u>67.2</u>	<u>17.9</u>	
Total (paragraphs 1023 and 1026)								

EA P&amp;T (31 December 1976)

## Proposed Division of Pension Fund Investments

Stock	Nominal value	Market value		Kenya	Tanzania	Uganda	
		£'000	Shs.m	Shs.m	Shs.m	Shs.m	
<u>Crown Agents Holdings</u>							
EAHC (R&H) 5 $\frac{3}{4}$ % 1977/83	£ 274,819	165	2.4	2.4	-	-	
EAHC (P&T) 5 $\frac{3}{4}$ % 1977/83	£1,013,820	608	8.6	8.6	-	-	
EAHC 5 $\frac{1}{2}$ % 1980/84	£ 45,425	26	0.4	0.4	-	-	
Kenya 3 $\frac{1}{2}$ % 1973/78	£ 161,863	139	2.0	2.0	-	-	
Kenya 4 $\frac{1}{2}$ % 1971/78	£ 172,166	148	2.1	2.1	-	-	
Kenya 5% 1978/82	£ 143,925	92	1.3	1.3	-	-	
Tanganyika 5 $\frac{3}{4}$ % 1978/82	£ 110,937	73	1.0	-	1.0	-	
Funding 5 $\frac{1}{2}$ % 1982/84	£ 61,261	45	0.6	0.6	-	-	
JMF deposit on call	£ 808,307	808	11.4	11.4	-	-	
			<u>2,104</u>	<u>29.8</u>	<u>28.8</u>	<u>1.0</u>	<u>-</u>
<u>Kenya Investments</u>							
EAR&H 6 $\frac{3}{4}$ % 1986	Shs.m 0.8		0.7	0.7	-	-	
Kenya 6 $\frac{1}{2}$ % 1981	Shs.m 0.5		0.5	0.5	-	-	
Kenya 6% 1982	Shs.m 5.0		4.5	4.5	-	-	
Kenya 6 $\frac{1}{2}$ % 1987	Shs.m 5.0		4.4	4.4	-	-	
Kenya 6% 1987	Shs.m 5.0		4.2	4.2	-	-	
Kenya 7% 1992	Shs.m 27.7		24.6	24.6	-	-	
Kenya 6% 1992	Shs.m 2.0		1.5	1.5	-	-	
Kenya 6% 1997	Shs.m 4.5		3.3	3.3	-	-	
Kenya 7 $\frac{1}{2}$ % 1988	Shs.m 5.0		4.7	4.7	-	-	
Kenya 7 $\frac{1}{2}$ % 1988	Shs.m 4.4		4.2	4.2	-	-	
JMF deposit account	Shs.m 25.6		25.6	25.6	-	-	
			<u>78.2</u>	<u>78.2</u>	<u>-</u>	<u>-</u>	
<u>Tanzanian Investments</u>							
Tanzania 6 $\frac{3}{4}$ % 1980/81			3.0	-	3.0	-	
Tanzania 6 $\frac{1}{2}$ % 1981			2.0	-	2.0	-	
Tanzania 6 $\frac{1}{2}$ % 1982/83			3.5	-	3.5	-	
Tanzania 6 $\frac{3}{4}$ % 1983/85			1.0	-	1.0	-	
Tanzania 6 $\frac{1}{2}$ % 1987/88			2.0	-	2.0	-	
Tanzania 6 $\frac{1}{2}$ % 1986			4.5	-	4.5	-	
Tanzania 7 $\frac{1}{2}$ % 1990/91			2.5	-	2.5	-	
Tanzania 7 $\frac{1}{2}$ % 1990/91			3.0	-	3.0	-	
Tanzania 7 $\frac{1}{2}$ % 1991/92			3.4	-	3.4	-	
Tanzania 7 $\frac{1}{2}$ % 1991/92			3.9	-	3.9	-	
Tanzania 6 $\frac{1}{2}$ % 1992			3.1	-	3.1	-	
Tanzania 7% 1992/93			3.5	-	3.5	-	
Tanzania 7% 1992			14.1	-	14.1	-	
Deposit account			4.7	-	4.7	-	
			<u>54.2</u>	<u>-</u>	<u>54.2</u>	<u>-</u>	
The nominal values of these stocks have not been given because the information has not been provided to the Mediator.							
<u>Uganda Investments</u>							
Uganda 7% 1992			12.7	-	-	12.7	
Uganda 7% 1988			3.0	-	-	3.0	
Uganda 6 $\frac{3}{4}$ % 1987			2.8	-	-	2.8	
Uganda 6 $\frac{3}{4}$ % 1987			4.4	-	-	4.4	
Uganda 7% 1977			2.0	-	-	2.0	
Uganda 6 $\frac{1}{2}$ % 1983			4.0	-	-	4.0	
Uganda 6 $\frac{3}{4}$ % 1986			1.9	-	-	1.9	
Uganda 7% 1990			2.0	-	-	2.0	
Uganda (no details bought 1976)			7.0	-	-	7.0	
Deposit account - Grindlay's Bank			6.8	6.8	-	-	
Account - Uganda Commercial Bank			25.9	9.2	12.7	-	

Proposed Division of Pension Fund Investments

EA Harbours (30 June 1977)

<u>Stock</u>	<u>Nominal value</u>	<u>Market value</u>		<u>Allocation</u>		
		<u>£'000</u>	<u>Shs.m</u>	<u>Kenya</u> <u>Shs.m</u>	<u>Tanzania</u> <u>Shs.m</u>	<u>Uganda</u> <u>Shs.m</u>
<u>Crown Agents Holdings</u>						
EAHC (R&H) 5 $\frac{1}{2}$ % 1977/83	£ 322,962	223	3.2	3.2	-	-
EAHC (P&T) 5 $\frac{1}{2}$ % 1977/83	£ 71,564	49	0.7	-	0.7	-
EAHC 5 $\frac{1}{2}$ % 1980/84	£ 199,658	128	1.8	-	1.8	-
Kenya 3 $\frac{1}{2}$ % 1973/78	£ 49,326	46	0.7	0.7	-	-
Kenya 4 $\frac{1}{2}$ % 1971/78	£ 19,692	18	0.3	0.3	-	-
Kenya 5% 1978/82	£ 790	1	-	-	-	-
Tanganyika 5 $\frac{1}{2}$ % 1978/82	£ 1,732	1	-	-	-	-
Deposit at call in JMF	£ 96,764	97	1.4	1.4	-	-
Fixed deposit with Crown Agents	£ 200,000	200	2.8	2.8	-	-
		<u>763</u>	<u>10.9</u>	<u>8.4</u>	<u>2.5</u>	<u>-</u>
<u>Local Holdings</u>						
EAHC 4% 1973/76	£ 19,447		0.2	-	0.2	-
EAHC (R&H) 5 $\frac{1}{2}$ % 1977/83	£ 148		-	-	-	-
EAHC 9% 1977	£ 59,200		0.8	-	0.8	-
EAHC 9% 1977	£ 271,360		4.0	-	4.0	-
EAHC 6 $\frac{1}{2}$ % 1986	K£ 112,823		2.2	2.2	-	-
Kenya 3% 1970/75	K£ 14,800		0.3	0.3	-	-
Kenya 4 $\frac{1}{2}$ % 1971/78	£ 2,871		-	-	-	-
Nairobi City Council 4 $\frac{1}{2}$ % 1971/78	K£ 5,550		0.1	0.1	-	-
Nairobi Pipeline Board 8%	K£ 37,000		0.6	0.6	-	-
Tanzania 6 $\frac{1}{2}$ % 1987	T£ 3,600		-	-	-	-
Tanzania 7% 1992	T£ 73,570		1.4	-	1.4	-
Uganda 6 $\frac{1}{2}$ % 1987	U£ 750		-	-	-	-
Uganda 7% 1992	U£ 5,693		0.1	0.1	-	-
			<u>9.7</u>	<u>3.3</u>	<u>6.4</u>	<u>-</u>
Total (paragraphs 1023 and 1026)			<u>20.6</u>	<u>11.7</u>	<u>8.9</u>	<u>-</u>

Proposed Division of Pension Fund Investments

GFS (30 June 1977)

Stock	Nominal value	Market value		Kenya	Tanzania	Uganda
		£'000	Shs.m	Shs.m	Shs.m	Shs.m
<u>UK Registered</u>						
EAHC (R&H) 5½% 1977/83	£1,133,163	782	11.2	-	11.2	-
EAHC (P&T) 5½% 1977/83	£ 27,605	19	0.3	-	-	0.3
Kenya 3½% 1973/78	£ 150,000	140	2.0	2.0	-	-
Kenya 4½% 1971/78	£ 75,549	70	1.0	1.0	-	-
Crown Agents Joint Consolidated Fund	£ 90,326	90	1.3	0.7	0.4	0.2
		<u>1,101</u>	<u>15.8</u>	<u>3.7</u>	<u>11.6</u>	<u>0.5</u>
<u>Local Holdings</u>						
EAR&H 6½% 1986	Shs.m 9.0		8.6	8.6	-	-
EAR&H 9% 1977	Shs.m 9.4		9.4	9.4	-	-
Kenya 5½% 1976/80	Shs.m 1.1		1.0	1.0	-	-
Kenya 6% 1992	Shs.m 25.6		19.8	19.8	-	-
Kenya 7% 1992	Shs.m 55.8		51.3	51.3	-	-
Kenya 6% 1997	Shs.m 4.0		3.0	3.0	-	-
Kenya 8% 1981	Shs.m 15.3		15.4	3.3	12.1	-
Tanzania 7% 1992	Shs.m 25.9		23.8	-	23.8	-
Tanzania 7½% 1990/91	Shs.m 11.5		10.6	-	10.6	-
Tanzania 7½% 1992/93	Shs.m 8.2		7.5	-	7.5	-
Uganda 7% 1992	Shs.m 29.5		27.0	-	-	27.0
Uganda 7% 1990	Shs.m 6.8		5.1	2.1	-	3.0
Pension Fund Cash Account (No 66-54)			1.3	-	1.3	-
			<u>183.8</u>	<u>98.5</u>	<u>55.3</u>	<u>30.0</u>
Pension Fund Loans			12.1	12.1	-	-
Total (paragraphs 1023 and 1026)			<u>211.7</u>	<u>114.3</u>	<u>66.9</u>	<u>30.5</u>



Alternative methods of calculating excess/(shortfall)

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
I. Geographical distribution	12,134 (100%)	6,301 (51.9%)	4,280 (35.3%)	1,553 (12.8%)
II. IMF 1978	12,134 (100%)	4,817 (39.7%)	3,834 (31.6%)	3,483 (28.7%)
III. IMF 1973	12,134 (100%)	4,478 (36.9%)	3,919 (32.3%)	3,737 (30.8%)
IV. IMF 1968 (Equality)	12,134 (100%)	4,045 (33.4%)	4,044 (33.3%)	4,045 (33.3%)
V. IMF Average (1968/1973/1978)	12,134 (100%)	4,453 (36.7%)	3,931 (32.4%)	3,750 (30.9%)
A. 50% Geographical (Note)	6,067	3,136	2,140	791
B. 50% IMF 1978	6,067	2,409	1,917	1,741
C. 50% IMF 1973	6,067	2,239	1,960	1,868
D. 50% IMF 1968	6,067	2,022	2,022	2,023
E. 50% IMF Average	6,067	2,227	1,965	1,875
F. 50% Geog + 50% IMF 1978	12,134	5,545	4,057	2,532
G. 50% Geog + 50% IMF 1973	12,134	5,375	4,100	2,659
H. 50% Geog + 50% IMF 1968	12,134	5,158	4,162	2,814
I. 50% Geog + 50% IMF Average	12,134	5,362	4,106	2,666
J. 1/3 Geog/1/3 IMF 1978/1/3 Equal	12,134	5,045	4,053	3,036
K. 1/3 Geog/1/3 IMF 1973/1/3 Equal	12,134	4,931	4,082	3,121
L. 1/3 Geog/1/3 IMF Average/1/3 Equal	12,134	4,923	4,086	3,125
M. 1/2 Geog/1/4 IMF 1978/1/4 Equal	12,134	5,351	4,110	2,673
N. 1/2 Geog/1/4 IMF 1973/1/4 Equal	12,134	5,267	4,131	2,736
O. 1/2 Geog/1/4 IMF Average/1/4 Equal	12,134	5,260	4,134	2,740

	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
<u>Excess/(shortfall) (Note)</u>			
1. On IMF 1978 (II)	1,484	446	(1,930)
2. On IMF 1973 (III)	1,823	361	(2,184)
3. On IMF 1968 (IV)	2,256	236	(2,492)
4. On IMF Average (V)	1,848	349	(2,197)
On equal parts:			
5. Geog + IMF 1978 (F)	756	223	( 979)
6. Geog + IMF 1973 (G)	926	180	(1,106)
7. Geog + IMF 1968 (H)	1,143	118	(1,261)
8. Geog + IMF Average (I)	939	174	(1,113)
9. Geog/IMF 1978/Equality (J)	1,256	227	(1,483)
10. Geog/IMF 1973/Equality (K)	1,370	198	(1,568)
11. Geog/IMF Average/Equality (L)	1,378	194	(1,572)
On 1/2 Geog & 1/4 Equality +:			
12. 1/4 IMF 1978 (M)	950	170	(1,120)
13. 1/4 IMF 1973 (N)	1,034	149	(1,183)
14. 1/4 IMF Average (O)	1,041	146	(1,187)

Note

The above table indicates the excess/(shortfall) of assets which a country possesses by comparing "equitable" distributions calculated on different bases (II-V, F-O) with the actual geographical distribution (I). In calculating the "geographical" portion of the various distributions an adjustment has been made to take account of the fact that there are assets value Shs. 29 million in Kenya which more properly belong in Uganda. This adjustment affects the calculation as follows:

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
Actual geographical location (I)	12,134	6,301	4,280	1,553
Assets more properly in Uganda	-	( 29)	-	29
Adjusted geographical location	<u>12,134</u>	<u>6,272</u>	<u>4,280</u>	<u>1,582</u>
Thus 50% geographical (A)	<u>6,067</u>	<u>3,136</u>	2,140	791



Equitable distribution giving different weights to geography  
and need measured by IMF average

	<u>Total</u> Shs.m	<u>Kenya</u> Shs.m	<u>Tanzania</u> Shs.m	<u>Uganda</u> Shs.m
1. 25% Geog + 75% IMF Average	12,134	4,908	4,019	3,207
2. 1/3 Geog + 2/3 IMF Average	12,134	5,060	4,048	3,026
3. 40% Geog + 60% IMF Average	12,134	5,181	4,071	2,882
4. 50% Geog + 50% IMF Average	12,134	5,362	4,106	2,666
5. 60% Geog + 40% IMF Average	12,134	5,444	4,141	2,449
6. 2/3 Geog + 1/3 IMF Average	12,134	5,665	4,164	2,305
7. 75% Geog + 25% IMF Average	12,134	5,817	4,193	2,124

Excess/(shortfall) (Note)

1. On 25% Geog + 75% IMF Average	1,393	261	(1,654)
2. On 1/3 Geog + 2/3 IMF Average	1,241	232	(1,473)
3. On 40% Geog + 60% IMF Average	1,120	209	(1,329)
4. On 50% Geog + 50% IMF Average	939	174	(1,113)
5. On 60% Geog + 40% IMF Average	757	139	( 896)
6. On 2/3 Geog + 1/3 IMF Average	636	116	( 752)
7. On 75% Geog + 25% IMF Average	484	87	( 571)

Note By comparing above distributions with actual geographic location (Item I on Appendix T). See also note at foot of page T2.