

**REGIONALISM AND REGIONAL FINANCIAL  
INSTITUTIONS WITH SPECIAL REFERENCE TO  
THE ASIAN DEVELOPMENT BANK**

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CERTIFICATE

Certified that the dissertation entitled "**REGIONALISM AND REGIONAL FINANCIAL INSTITUTIONS WITH SPECIAL REFERENCE TO THE ASIAN DEVELOPMENT BANK**", submitted by **Ms. Moana Bhagabati** in partial fulfilment of the requirements for the award of the degree of **Master of Philosophy** of this University, is her original work. This dissertation has not been submitted for any other degree of this or any other University.

We recommend that this dissertation be placed before the examiners for evaluation.

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## INTRODUCTION

Regional financial institutions play a significant role in the field of development financing. The study of such institutions assumes greater significance in the context of the current wave of regionalism sweeping the world. The three institutions with which this study is concerned, namely, the Asian Development Bank (ADB), the Inter-American Development Bank (I<sub>A</sub>DB) and the African Development Bank (A<sub>F</sub>DB) are financial concerns which constitute close alternatives/supplements to the World Bank group<sup>1</sup> as sources of external assistance for their developing member countries (DMCs).

The case for the establishment of these regional financial institutions can be seen in the context of a growing developing-country-consciousness, beginning late 1950s and early 1960s, for cooperation among themselves. There is also the assumption that the need for alternative/supplemen-

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1. The World Bank refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA) while the World Bank group includes the International Finance Corporation (IFC).

tary financial institutions was not just shaped by any evident shortcoming of the World Bank which was unable to cope with development demands; it is possible that the developing countries simply wanted additional channels for the flow of multilateral finance. Taking such conjectures into account, the study delves into the motive force behind the creation of regional financial institutions.

Some of the queries which the study poses and seeks to answer are:

. What was the nature of the demand which required the establishment of these alternative/supplementary sources of international finance?

. To what extent was the nature of the demand reflected in the shape of the institutions that were created, and what other factors affected the way in which the demand was expressed?

. To what extent do these institutions have the capacity to evolve in response to demand?

In the approach set out in the questions, the demand for an alternative to the World Bank is taken as the starting point. Whether this demand is well or ill founded is

not the issue raised here; the study simply records the existence of the demand and analyses its nature. The reference to the World Bank as the focal point is relevant because the institution figured large in the minds of those who created regional banks, and of those who had been responsible for their evolution.

Going by the nature of the demand, regional development banks can be categorised in a clearly defined class; however, the manner in which each region responded to the demand gave rise to inherent differences between them:

First, the three regions, namely, Asia, Latin America and Africa differed sharply from each other in their internal characteristics and relationships, requiring different institutions to perform essentially the same function;

Secondly, the developed country interests, especially, their political interests, differed from one region to another, and this affected their degree of commitment to regional institutions *per se*;

Thirdly, in the synthesis of the above factors, there were variations in their interactions between the ways in which the need for such institutions was seen by the

developing countries which established them, and the developed countries which were ultimately going to have to provide the cash.

In the course of this work, through the four chapters and conclusion, these issues have been outlined. One of the implicit objectives of regional development financial institutions is the promotion of regional economic cooperation. This aspect acquires special significance as the world is increasingly getting aligned along the lines of regional blocs. Regional banks, with their area of operation confined to definite geographical regions are nevertheless quite global as far as their membership or members' sphere of control is concerned.

In studying the three regional banks, special attention has been paid to the organisational/institutional aspect, the capital structure, decision-making, etc. Particular emphasis has been laid to the circumstances leading to the establishment of each institution. In the creation of the Inter-American Development Bank, the USA had a dominant role in shaping the aspirations of the Latin American nations to establish an independent source of development finance. The



African Development Bank, on the other hand, was the brain-child, entirely of the African nations and the developed countries of the West wanted no part in its establishment. The Asian Development Bank, which is the focus of this study was conceived under the auspices of a UN regional organisation - the ECAFE [Economic Commission for Asia and the Far East - now called the ESCAP (Economic and Social Commission for Asia-Pacific)], though later it stepped out of the umbrella.

The last of the three regional financial institutions to be established, the ADB's role and area of operations has multiplied over the years. It finances the needs of half the world's population and maintains a balance between the developing countries of Asia and the developed countries of Asia and the West, in its membership. A detailed study of the policies, lending activities and country programmes has been undertaken keeping in view India's position in the Bank's list of priorities. India, by agreement had been a non-borrowing member country of the ADB until the mid-1980s. A broad overview of the country's decade under ADB has been included.

This study concerns multilateral development financial institution with reference to the ADB. Keeping this aspect in view, a section has been devoted to a comparative study of all the institutions dealt with alongside the World Bank. This gives a clear picture of the position of different sources of multilateral finance.

And in winding up, an overall assessment of the institutions, particularly the ADB, and their prospects in the context of increased interdependence among nations. In a world of ever-changing parameters, economic development is the key to survival for nations. In aiding countries to pursue this objective, regional financial institutions have a vital role to play.

## CHAPTER I

### REGIONALISM AND DEVELOPMENT FINANCE INSTITUTIONS: RATIONALE BEHIND THEIR ORIGIN

#### REGIONAL IDENTITIES

A regional institution is one in which the demand to serve particular interests is expressed in the form of a qualification, explicitly confining operations or eligibility for membership, or which attributes a special status within that membership, to countries within a limited geographical area. The case for establishing a regional institution generally rests on the belief that the area has particular characteristics which gives it an essence of unity, which distinguish it from other areas, and which require particular institutions to serve its needs. At the same time the sense of regional identity may be weak, and regional institutions may be established to strengthen it. A regional institution thus, may both shape and be shaped by the region that it serves.

An important concept here is of geographical area or region. All international financial institutions are to some

extent restricted either in their membership or in their area of operations. Asia, Africa and Latin America are the largest identifiable regions in which the developing countries are dominant and they can establish institutions to meet their own demands. Multilateral institutions at this level are expected to be more sensitive than institutions at the global level to developing countries' actual demands. Multilateral agencies at the regional level can be distinguished from those at the global level in the nature of the demand that they exist to serve. Even when non-regional countries, including developed countries, are admitted to membership, such countries are less likely at this level than at the global level to see their own vital interests at stake, as the regional members are bound to do.

Although there is a prima facie case for expecting multilateral institutions established at the continental level to be crucial in the articulation of developing countries' interests, there are in practice variations determined by the degree of internal coherence which Asia, Africa and Latin America, respectively possess.

## THE DEMAND

Strictly speaking, the term regional development bank (RDB) refers to those development finance institutions which have been founded by certain country groups in different parts of the world to foster their rates of economic growth and social progress through regional economic cooperation. Generally, these banks operate more or less on a continental level. The three institutions - the Asian Development Bank (ADB), the African Development Bank (AFDB) and the Inter American Development Bank (IADB) have at least two purposes which are common to all of them:

First, the mobilisation of additional external resources, either from governments or from the world's capital markets, and

second, the financing of projects which will contribute, not only to the development of individual member countries, but also to the integrated development of the region as a whole. Apart from a tendency to focus attention on measures to promote economic integration, which is a difference of emphasis rather than a difference of basic function, the purposes commonly attributed to regional banks in their

articles of agreement are by and large the purposes of development institutions as a class, rather than institutions at the regional level.

These purposes, the mobilisation and allocation of development finance, reflect the functional element of the demand for regional development banks. The difference between regional development banks and other development finance institutions lies in the geographical element of demand, the particular factors which call for the establishment of such institutions at the regional level. Thus the position occupied by a regional development bank is determined by the intersection of two sorts of demands: on one side there is what is essentially an economic demand for institutions which will mobilise resources for development and will apply those resources to projects yielding a high economic return. On the other side, there is what is essentially a political demand for institutions which will assert and strengthen regional identity. The first of these demands is the principal determinant of the formal structure of the institution. The second is the principal determinant of what will be expected of an institution with such a struc-

ture by the countries which it exists to serve.

Regional development banks have the features of a bank -- a capital structure so arranged as to serve as the basis for additional resource-mobilising capacity, allocation procedures, technical services, etc. These are not new kinds of banks. They are examples of an existing type of institution, which in the 1960s was used to meet a new and growing demand. Their originality lies, not in the devising of a new formula, but in the application of an existing formula, that of global banking, at a new level. In this connection, it should be mentioned that the stated purposes of the Asian, African and the Inter-American Banks have several features in common with that of the World Bank, though each of them have features peculiar to them and their region.

True, these institutions have been modelled on the World Bank; and they have been projected as an alternative/supplement to the global financial institution because this single unit was unable to cope with the development demands of developing countries in Asia, Africa and Latin America. However, there are features which set them

apart as a class. The case in point is the demand for establishing development finance institutions at the regional level. This demand has four components, all of which have an important bearing on the functioning of the institutions.

First, the functional element of demand is to some extent modified by the level at which it is articulated with the tendency of the institutions to emphasise upon economic integration.

Secondly, the geographical element of demand, the performance of the assertive function which is part of what is expected of all regional institutions, has to be related to the particular structures which regional banks possess. Initially this is seen as the assertion of exclusive aspects of identity, a demand both for an increased quantity of external resources and of a greater power to determine the uses to which such resources are put.

Thirdly, this leads to the assertion of the inclusive aspects of identity, the identification of particular internal characteristics which distinguish the region in question as a coherent entity.

Fourthly, the demand for the performance of this assertive function has a feedback effect on the character of the



functional demand, in the form of an expectation that the operational policy of the institution will differ in identifiable and specific respects from that of other development finance institutions.

#### **ESTABLISHMENT OF REGIONAL FINANCIAL INSTITUTIONS**

The basic rationale behind the establishment is the need for additional sources of finance for development. The evolution of the institutional arrangements for channelling finance to developing countries has mirrored changes in the world economy. In the post war period, they have passed through three broad phases:<sup>1</sup>

The *first phase* lasted from the end of World War II to the late 1960s, when official flows, direct foreign investment, and trade finance were the main forms of external capital for developing countries. The financing of current account deficits was done largely through governmental arrangements and international organizations. Financial intermediaries were mainly involved in domestic business and

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1. World Development Report, 1990, World Bank (New York, 1990), pp.86-88.

in financing international trade for domestic clients. The overseas operations of commercial banks in the industrial countries were limited by exchange and other controls.

The *second phase* covered the period from the late 1960s to 1982. It was characterized by considerable volatility in exchange rates and interest rates and by much larger current account imbalances. In this environment, the structure of the institutional arrangements changed, and several new mechanisms were introduced. Institutions operating in the international banking and bond markets proved very innovative. International banking developed rapidly, shifting from trade financing to more direct balance of payments financing. Encouraged by the reduction or abolition of controls on international flows of capital, banks participating in international lending grew in number and broadened the range of their countries of origin.

The *third phase* began in 1982, when commercial banks started to reassess their exposure to developing countries, and budgetary pressures in several industrial countries worked against aid. Official flows, notably from some of the multilateral institutions, have levelled off. Direct

foreign investment registered a nominal decline. A significant portion of commercial bank lending reflected concerted loans raised as part of debt rescheduling agreements. A more cautious attitude toward private lending to developing countries evolved against a background of further significant structural changes in the banking and bond markets.

It is the first of the three phases that we are concerned with as part of this study. The early post-war period was marked by a growing recognition of the need for strategies designed to mobilise and direct financial resources into desired channels of development activities. In the developing countries, many of them newly independent, rising levels of investment created a strong demand for medium term and long term finance. The financial infrastructure which these countries inherited, however, was often narrow with commercial banks tending to play a dominant role. Moreover these banks do not provide adequate amounts of medium term and long-term credit. In addition, many of these countries lacked an adequate amount of supply of indigenous financial resources and individually, their access to world capital markets was restricted. For many countries, bilateral arrangements with developed countries, and to a lesser

extent, the World Bank group, represented the major sources of development finance.

For reasons, both economic and political, this situation was unacceptable and was modified through the cooperative efforts of the developing countries themselves. These efforts resulted in the establishment of the regional development banks.

The economic and political factors leading to the creation of these financial institutions can be identified as:

- a group of countries promoting closer forms of economic cooperation may also decide to set up a financial institution as a manifestation of their commitment. A major factor in such cases has been the perceived need to create a sense of regional identity among a group of countries who feel they have something in common. The establishment of a financial institution is designed to translate common interests into operational reality. It is for this reason that the statutory objective of most development financial institutions include the promotion of regional cooperation, imply-

ing a belief that such institutions have many advantages since they specialise in the problems and requirements of a particular region;

- regional development finance institutions are regarded as appropriate instruments for the mobilisation of additional external resources. This appears to have been a determining factor in the establishment of the three major regional development banks, viz, the Inter-American Development Bank, the African Development Bank and the Asian Development Bank. These banks were regarded, at the time of establishment, as a complement to the World Bank group, since they were more directly concerned about the problems of particular country groupings, and thus in a position to strengthen the ability of each region to mobilise resources from the world financial system. Each of them have given special attention to the attraction of external resources. An important step in the pursuit of this objective has been the admission to membership of non-regional countries;

- the development finance institutions have often been perceived as provider of services not normally available from existing institutions such as the World Bank group. They are seen as a practical answer to the need for multi-

lateral lending agencies to advance beyond the stage of acting as passive channels for the flow of private capital resources to developing countries and to take a broader view of the requirements of members; requirements such as project promotion and other pre-investment financing. By reason of their very nature, they are also expected to have a greater capacity to adjust their lending terms to the debt servicing capacity of members through the creation of soft lending facilities funded by government subscriptions.<sup>2</sup>

Economic cooperation among developing countries has increasingly found favour. The unfavourable structural features which characterise the economy of many developing countries have been used to justify the need for the creation of economic groupings among them in order to make them less dependent on the developed countries. Within this framework, regional development banks represent an important element of a nascent monetary and financial infrastructure within the South aiming at facilitating trade, aid, invest-

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2. According to the 1984 UNCTAD Secretariat Report, Multi-lateral Development Finance Institutions of the Developing Countries and the Promotion of Economic Cooperation and Integration, (U.N., 1984), these establishment criteria apply to all multilateral development finance institutions.

ment and other forms of cooperative economic endeavour to expedite the economic and social development of these countries. With the growing acceptance of economic cooperation and integration as a dynamic force in development strategy, regional development finance institutions have had to share the responsibility of supporting the cooperative schemes.

In the international discussions and negotiations leading to the establishment of regional development banks, certain concepts came to be accepted. They are as follows:<sup>3</sup>

a) the advantages of a regional bank in specialising in the problems and requirements of a particular region or sub-region, in being staffed largely by nationals of the countries in that region, and in evolving an especially close relationship and rapport with its member countries;

b) the need for multilateral lending agencies to advance beyond the stage of acting merely as passive channels for the flow of private resources to the developing countries under international guarantee and to assume the func-

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3. Sidney Dell, The Inter-American Development Bank: A Study in Development Financing (New York, 1972), pp.237-9.

tions of full-fledged international development institutions capable of taking a broad view of the development requirements of their member countries, involving promotional, technical assistance, and preinvestment activities, in addition to straight financing;

c) the importance of providing multilateral agencies with the capacity for adjusting the terms of lending to the debt-servicing capacity of member countries, notably through the creation of soft-lending facilities obtained from government subscriptions;

d) the need for a multilateral agency empowered to lend to Latin American (and subsequently African and Asian) private enterprise without guarantee and to provide equity capital; (however, the RDBs were not given these powers. Instead the International Finance Corporation was established within the framework of the World Bank).

e) the need to diversify the lending operations of the multilateral agencies and enable them to move beyond infrastructure projects into the financing of directly productive activities, especially in the fields of agriculture and industry;

f) the key role of social projects in strengthening the



development process and in effecting a wider distribution of the benefits of development and the scope for activity by the multilateral agencies in giving financial and technical support to projects in the fields of education, health, urban development, housing, and the provision of drinking water and sewage systems;

g) the need for a mechanism that would make it possible for multilateral agencies to reach not merely large-scale enterprise but small and medium scale farmers and industrial entrepreneurs as well;

h) the importance, in this context, of decentralising the lending process by supplying resources to national development banks and other local financial institutions for re-lending to domestic enterprises; TH-6989

i) the possibilities for enhancing the effectiveness and flexibility of lending programmes by not limiting assistance to import financing, but by standing ready to defray local costs wherever this would encourage the supply of domestically produced raw materials, components, equipment, transport facilities, or other inputs;

j) the potentially strategic significance of regional banks in supporting cooperation among member countries, with



a view to harmonising their patterns of growth and investment, taking advantage of opportunities for specialisation and exchange, and creating regionwide markets for national industries.

It is generally opined that RDBs can better understand and appreciate the problems which the countries in the particular region may be confronted with due to physical and psychological proximity. Drawing an analogy, Takeshi Watanabe, a former president of the Asian Development Bank, said, "The Asian Development Bank (ADB) is like a family doctor who tries to know and learn everything possible about the health of his many patients so that he may be able to help his patients in their hour of need. At the same time however, when we find that our patient needs the help of a specialist or a group of specialists we refer him to the big city doctor, the World Bank, and we ask its help".<sup>4</sup>

#### CONCEPT OF REGIONALISM

So far the discussion has revolved around regional financial institutions and their establishment criteria.

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4. Quarterly Newsletter, Asian Development Bank (Manila, April 1970), pp.19-20.

Passing references have been made more than once to the idea of regional economic cooperation as sought to be promoted by these institutions. In this context it would be in order to look at the concept of regional cooperation which is the essence of any regional institution.

The concept of regionalism gained currency in the post World War II period. The idea originated in the urge for cooperation among countries of a particular region faced by a common challenge to their economic and political stability or their shared ideology. Four decades ago, the first case of regionalism spread across the world, boosted by the creation of the European Community (EC) in 1957. The United States, then not quite a supporter of regionalism, stood behind the EC, basically to deter a Soviet threat. Then followed a series of regional groupings among developing countries of Asia, Africa and Latin America. In a sense, this kind of regional consciousness generated the impetus to create financial institutions so as to reduce developing-country dependence on the developed world in areas of finance. This wave of regionalism however, did not flourish outside Europe and lay dormant during most of the 1970s. It

took off again in the mid 1980s with the involvement of the major players in the world economy.

Regionalism, which has its roots in the theories of integration, viz, functionalism and neo-functionalism, relates to a segment of the world bound together by a common set of objectives based on geographical, economic, social, cultural or political, ties and possessing a formal structure provided for in intergovernmental agreements. The present regionalism could be inspired by financial and economic self-interest in the manner of the birth of European nations. In a historical sense, just as nationalism was a logical extension and building up of local power into more effective political forms and institutions, so today's regionalism is an attempt at recovering self determination that national autarky is no longer able to provide.<sup>5</sup> The United Nations Charter encouraged the role of regional agencies in the process of pacific settlement of local disputes, thus promoting the concept of regionalism.

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5. This logic has been forwarded by Michael Hudson, "The Logic of Regionalism in History and Today", in Nicol, Echeverra and Pecei, ed., Regionalism and the New International Economic Order: Studies presented to the UNITAR-CEESTEM-Club of Rome Conference at the UN, (New York, 1981), p.13.

## Under the United Nations Charter

The issue of regionalism figured prominently at the San Francisco Conference when the Charter of the United Nations was being formulated. Political regional groupings like the League of Arab States (Arab League) and the British Commonwealth of Nations were already in existence, so the UN Conference on International Organisation was presented with a *fait accompli*. Prominent voices of the time like Winston Churchill, favoured the regionalist to the universalist approach to world order, and the Latin American states formed a strong pressure bloc for a recognition of the legitimacy and importance of the role of regional agencies in promoting the objectives of international peace, security and welfare. Accordingly, Articles 52, 53 and 54 under Chapter VIII of the Charter makes provisions for regional arrangements with the explicit purpose of maintaining international peace and security.<sup>6</sup>

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6. The most important principles enunciated in the Articles are:

- i) regional agencies may exist for dealing with such issues of international peace and security as are appropriate for regional action, as long as their

In the economic sphere, regionalism received greater support at San Francisco as compared to its status under the League Covenant and the Dumberton Oaks Proposals. Article 68 of the UN Charter provides for the creation of economic and social commissions under the aegis of the Economic and Social Council (ECOSOC). In accordance with the constitutional provision, the UN embarked upon a policy of regionalisation in the economic sphere. By March 1948 the Economic Commission for Europe, the Economic Commission for Asia and the Far East (ECAFE) [presently known as the Economic Commission for Asia and Pacific (ESCAP)] and the Economic Commission for Latin America (ECLA) were created. These

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...Continued...

activities are consistent with the purposes and principles of the United Nations;

ii) states are encouraged to settle local disputes through regional agencies before referring them to the Security Council;

iii) the Security Council may, in turn, utilise such agencies for the settlement of local disputes;

iv) with the exception of action against enemy states resulting from World War II, no enforcement action shall be taken by regional agencies without the authorisation of the Security Council;

v) the Security Council shall be kept fully informed of activities undertaken or contemplated by regional agencies for the maintenance of peace and security.

[Articles 52, 53 and 54 of the UN Charter]

regional commissions are not regional replicas of the UN; they enjoy a considerable amount of institutional independence, represent relative environmental homogeneity and are limited in purpose. They have their own discretion, ideology, distinctive style, and have their own areas of emphasis.

### Evolution

In the developing world Latin America was one of the first regions to initiate the thought process on economic integration. And in the 1960s, this became a full-fledged movement towards regionalism. Free trade areas and customs unions mushroomed in Latin America and Africa. However, viewpoints regarding the process of regionalisation necessarily differ. According to Felipe Herrera, former president of the Inter-American Development Bank, the process did not have a decisive economic focus in Latin America -- the emphasis was more of a political nature.<sup>7</sup> This was supposedly because the countries realised, following the World War II, that the reins of power were in the hands of the bigger countries of the North. Where the industrial countries were

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7. Felipe Herrera, n.5.

smaller, they could acquire power through association. In this kind of a rationale, economic factors are regarded as a necessary condition, though not wholly sufficient. In Latin America there was little possibility of rapid industrialisation behind closed frontiers and the concept of a common market was a basic stimulus everywhere.

The 1960s thus was the decade of the internal reorganisation of Latin American and other developing regions of the world. The Final Act of the United Nations Conference on Trade and Development (UNCTAD) of 1964 established the principle that in international economic relations, regional economic groupings, integration or other forms of economic cooperation should be promoted among developing countries as a means of expanding their intra-regional and extra-regional trade and encouraging their economic growth and industrial and agricultural diversification with due regard to the special features of development of the various countries concerned.

In other words, world opinion finally arrived at a consensus to the effect that economic integration programmes constitute an important instrument for economic development,



provided they ensure an equitable distribution of the benefits and costs of integration and do not entail elements of discrimination against other areas in the process of development. One can enumerate the principal motivations behind regional integration as:

a) industrial development and technological progress (involving a desire to create a different industrial structure which will provide a greater stimulus to technological progress and will have greater influence on the whole economy);

b) expansion of trade and better use of productive capacity (market expansion through trade liberalisation affords an opportunity for specialisation and a more efficient use of installed capacity);

c) improvement of political relations among states (almost by definition any regional arrangement worth its name entails the imposition of some common rules of conduct on the countries entering the arrangement and a set of reciprocal commitments and obligations).

This round of regionalism however, did not survive because of certain basic problems which cropped up within

the system. The primary motive behind the movement in the developing world was industrialisation through regional import substitution. It was thought that infant industries could first learn to export within a protected regional market, and then face global competition. But import substitution industrialisation failed in countries and in regions as well. By the mid 1970s, outward-oriented policies had begun to capture the imagination of policy-makers. In the subsequent years, unilateral, non-discriminatory trade liberalisation became the order of the day and regionalism was pushed to the background.

The second and current round of regionalism got under way in the 1980s. Over the decade several regional agreements and countless proclamations of intent to integrate have been signed. The most recent agreement (effective from January 1994) to have strengthened the expanding wave of regionalism has been the North America Free Trade Area (NAFTA) involving Canada, the United States of America and Mexico. Quite a few other permutations and combinations involving the Indian Ocean bordering countries, the Pacific Rim countries, parts of Europe, to name a few,

are being considered. Regionalism is once again being viewed as a solution to the major international economic problems of our times. For many countries, the proliferation of non-tariff barriers in the developed world has made regional integration an attractive policy option. Integration with say, the United States or the European Community, would offer them guaranteed access to a large market. The USA too is no longer exclusively committed to multilateralism and is actively pursuing regionalism.

The new round of regionalism differed from that of the `60s in two important respects:

. the regionalism of the `60s represented an extension of the import-substitution-industrialisation strategy from the national to the regional level and was therefore inward-looking. The current regionalism by contrast, is taking place in an environment of outward-oriented policies within a liberal trading scenario.

. in the `60s developing countries pursued regional integration exclusively with other developing countries. Today many of these countries are decidedly in favour of integration with large developed countries.

## EXPECTATIONS OF DEVELOPING COUNTRIES

During the past two decades, trade among developing countries has grown faster than their trade with developed countries. This trade expansion reflects a number of factors: the weakening import demand in developed countries as a result of their slower economic growth; the growing awareness among exporting developing countries of the market potential in other developing countries and their efforts to diversify exports; and trade policy measures deliberately adopted by these countries. Accordingly, monetary and fiscal cooperation has emerged as a major instrument for strengthening economic cooperation among developing countries.

In the establishment of regional financial institutions, a transnational monetary and financial network covering a large group of developing countries has emerged. In the light of the present world economic situation, these achievements appear relatively modest. The deterioration of the external payments position of most developing countries in recent years has imposed painful adjustments, often at the expense of growth and other developmental objectives.

This situation has not come about suddenly, but has been maturing over a number of years, during which the developing countries have repeatedly stressed in different international forums, the importance of strengthening the financial infrastructure through which development finance enters their economies. Particular needs relate to the strengthening of the financial base of the regional financial institutions of developing countries and of their ability to extend funds on concessionary terms. In 1979, the United Nations Conference on Trade and Development (UNCTAD), in a resolution requested its secretariat to submit action-oriented proposals based on the Arusha Action Programme. In the field of monetary and financial cooperation, the Action Programme called on the Secretariat to continue to assist developing countries to strengthen existing multilateral financial institutions by reinforcing their mutual links and coordinating their activities, in order to enable them to identify, prepare, promote and finance large-scale projects in all fields of economic cooperation among developing countries.

In a similar vein, the Caracas Programme of Action and

the Intergovernmental Group of 24 on International Monetary Affairs in 1982 underlined the importance of continued financial support to regional development banks to allow them to carry out their development activities.

One factor which comes to light in the course of the study is the close connection between the regional financial institutions and regional economic cooperation. A case in point is the creation of the I<sub>A</sub>DB which was both an expression of the regionalisation of financial arrangements as well as an instrument to stimulate further regionalisation. In the 1960s, the Bank was called 'El Banco de la Integracion'.

In a broader sense the demand for regional development banks can be identified with the region's intellectual and cultural demand, trying to seek alternatives to the solutions laid out by the developed countries of the West.

## CHAPTER II

### STUDY OF REGIONAL DEVELOPMENT BANKING: THE INTER-AMERICAN AND THE AFRICAN DEVELOPMENT BANK

The financial institutions with which this study is concerned - the Inter-American Development Bank ( $I_A$ DB), the African Development Bank ( $A_F$ DB) and the Asian Development Bank (ADB) have a lot of similarity of purpose. Broadly speaking, they seek to promote the role of capital formation, both internal and external as well as public and private; help accelerated economic development and social progress of the relatively less developed countries in the region served by them; provide stimuli for regional economic cooperation by assisting in making economies of various countries in the region more complementary with each other and with international projects; and facilitate an increase in foreign trade particularly extra-regional export of capital goods.

These Banks operate in relatively underdeveloped regions of the world -- the  $I_A$ DB in Latin America, the  $A_F$ DB embracing the African continent and the ADB in most of Asia. Each of them have a common ideological foundation and simi-

larity in objectives, yet with a degree of divergence in approach and operational strategy.<sup>1</sup>

## **FUNCTIONS**

The functions which the RDBs generally perform can be broadly divided into three categories:

### **Provision of Financial Assistance**

As regards the provision of financial assistance, the RDBs have concentrated on the making of loans and have not steered into the field of providing guarantees and participations. These development banks provide hard as well as soft loans. The latter are provided out of the special resources earmarked for the purpose and on much more liberal terms and conditions while the former are provided out of the banks' ordinary resources and on usual terms and conditions. Due to scarcity of special resources the volume of soft loans is usually small compared to hard loans. Soft loans are provided for projects which are assigned a very high priority in the programme of development of member

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1. Quarterly Newsletter, Asian Development Bank (Manila, April 1970), pp.19-20.



countries.

Turning to the sectors of the economies of member countries assisted by the RDBs, it is observed that almost all the sectors, viz., infrastructure, industry, agriculture and social services, pre-investment studies, etc., are assisted.

The RDBs do not discriminate between public and private sector borrowers. They provide assistance to all types of borrowers, individual enterprises, governments, autonomous and semi-autonomous bodies and agencies, development banks and the like. Loans are provided, generally to finance only the foreign exchange cost of the project concerned and in special cases even the local cost. These banks do not provide assistance for financing the working capital requirements. Large-sized loans are provided by RDBs directly to the borrowers, those below the minimum limit are routed through development banks and financial institutions in the member country (or national development banks). This is done with a view to scattering financial assistance over as wide an area as possible. It also makes the task of the RDBs easier. These institutions follow the principle of

additionality in the operations and try to avoid the overlapping of functions and competition with national development banks. *They seek to supplement rather than supplant the assistance which national development banks purvey for economic development and social progress of the respective countries.*

### **Provision of Technical Assistance**

Such assistance is sometimes more useful than financial assistance for the relatively underdeveloped countries characterised by the scarcity of technical skill. Technical assistance is provided by the financial institutions to help member countries chalk out their programmes and policies of development and determine priorities to assist entrepreneurs in the identification, preparation, implementation, follow-up, etc., of projects; to establish or reorganise economic institutions in member countries; to develop managerial skills in the region and to accelerate techno-economic surveying and pre-investment studies. Thus, through provision of technical assistance an attempt is made to help member countries plan their development strategies appropriately and judiciously, enable them to locate and

develop investment opportunities and assist them in building up managerial and technical skills.

RDBs provide technical assistance in the form of grants and loans. The former are non-reimbursable while the latter have to be repaid to the banks. Technical assistance grants are provided for high priority purposes. Such grants are made out of special funds. Just like financial assistance, technical assistance is provided for all the sectors of the economy of member countries.

#### **Other Functions**

These consist of research and surveys to promote regional economic cooperation and help the member countries to locate development possibilities. These functions, besides benefitting the member countries also bring advantage to the RDBs because on the basis of the findings of such works, the institutions develop pipelines for projects for provision of financial assistance in the future.

#### **MANAGERIAL PATTERN**

All the RDBs have adopted more or less the same governing pattern. The supreme decision-making body in case of

all the Banks is the **Board of Governors**, consisting of representatives, the Governors, of all the member countries. The Governors need not necessarily belong only to the region served by the Bank; the Inter-American and the Asian Development Bank have permitted capital subscription by even non-regional countries. The Board of Governors concern themselves with matters of strategic significance only, like admission of a new member, increase in the Bank's authorised capital, election of directors, etc. The rest of the powers are delegated by them to the Board of Directors. The Board of Governors usually meet once a year.

Responsibility for the direction of the business of the RDBs vests in the **Board of Directors** (or the Board of Executive Directors). The Directors are appointed by the Board of Governors for periods ranging from two to five years. The Board of Directors also include representatives of non-regional member countries, where such countries subscribe to the Banks' capital. The Directors exercise all powers delegated by the Board of Governors, including grant of loans, provision of technical assistance, making of investments, raising of resources, etc.

People who serve as Governors/Directors in RDBs are normally Ministers of Finance, Governors of Central Banks and senior government officials in member countries. For smooth discharge of their functions, RDBs sometimes constitute certain "special committees", example, the management committee, the finance, the operations and the administrative committee, etc.

#### **CAPITAL STRUCTURE**

This can be divided into two parts:

- ordinary funds,
- special funds.

#### **Ordinary Funds**

These may consist of accumulated reserves, borrowings made by the banks mainly through the issue of bonds in the international capital markets and capital contributed by the member countries.

**Reserves:** In view of the fact that RDBs, by their very nature, do not seek to earn huge profits and build up massive reserves, significance of the element of reserves is

generally very low in their capital structures.

**Borrowings:** As regards borrowings through the issue of bonds, the Banks have relied on this significantly.

**Capital:** RDBs keep nearly half of their subscribed capital as **callable**, only 50% of it is held as **paid-in**. The I<sub>A</sub>DB is an exception where paid-in capital is hardly 15% of the subscribed capital. A large part of the subscribed capital is held as callable to keep a reserve for meeting liabilities, if necessary, on account of the borrowings made and guarantees issued. Generally capital of the RDBs is subscribed by the region's countries. But the Asian Development Bank is an important departure. Here 37.03% of total capital has been subscribed by 16 non-regional member countries as against the contribution of 62.97% subscribed capital by 36 regional member countries.<sup>2</sup> In case of the Inter-American Development Bank, the United States is the only extra-regional country which has been permitted to subscribe to its capital, the U.S. contribution being 37%.

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2. Annual Report 1992, Asian Development Bank, (Manila, 1992), pp.130-1.

### **Special Funds**

These are procured from the regional and non-regional countries, besides the earmarking of a part of the paid-in capital by the RDBs themselves. The special funds of the I<sub>A</sub>DB comprising of the funds for Special Operations, Social Progress Trust Fund and Non-member Country Funds aggregate 62.5% of the paid-in capital.

The vital role of special funds in the operation of RDBs emerges from the fact that most of these resources are received by these banks either on a grant basis or on very soft terms. Provision of special funds on soft terms by relatively advanced non-regional countries to RDBs presents an example of endeavour in the direction of international economic cooperation for regional development.

### **TERMS OF DEVELOPMENT FINANCE**

While providing financial assistance, RDBs lay down various terms and conditions. Generally, such terms pertain to the rate of interest, commitment charge, commission, premium, amortisation period, grace period, currency of repayment, procurement and guarantee for the loan.

So far as the **rate of interest** is concerned, it varies between soft loans and hard loans. For the former it is much lower than the latter. The rate of interest also differs from one RDB to the other. Thus the rate of interest on hard loans is between 5 to 6.25% in the case of A<sub>P</sub>DB, 7.5% for the ADB and 8% for the I<sub>A</sub>DB. On soft loans it varies between 1.5% to 3%. Actually, no fixed rate is applied for such loans and each case is decided on its own merit. The I<sub>A</sub>DB has gone to the extent of providing interest loans out of its special funds (mainly out of its Social Progress Trust Fund).

**Period of the loan and grace period** for commencement of amortisation is decided by RDBs like all other development banks, with reference to the repayment capacity of the borrower. Longer amortisation and grace periods are stipulated in respect of the soft loans. Loans are generally required to be paid in the currency in which they are granted.

As regards **procurement requirements**, they depend largely on the source from which the loan is provided by RDBs. Sometimes these banks receive certain financial resources



from regional and non-regional countries which are area-tied or country-tied. Naturally, while granting loans out of such funds, the banks have to specify the procurement requirements.

While granting loans, RDBs require the borrowers to furnish a **guarantee**. Except when the loan is granted to a member government, such guarantee are stipulated.

To better understand the peculiarities and specialities of the different RDBs, the study now focuses on two of them, the I<sub>A</sub>DB and the A<sub>F</sub>DB, in brief, while dwelling at length on the ADB.

#### **THE INTER-AMERICAN DEVELOPMENT BANK**

The Inter-American Bank was the first of its kind to come into existence. Latin America was in the forefront of underdeveloped regions to respond to the swing towards multinationalism which characterised the post-World War trends. Impetus for the establishment of the I<sub>A</sub>DB emanated from a feeling among Latin American countries, towards early 1950s, that the process of transformation of these nations from a traditional background to a non-traditional indus-

trialised one necessitated the creation of some multilateral agency which could coordinate the various national objectives on a regional level and foster economic growth of countries in the region in an integrated manner.

A distinct pattern can be traced in the long succession of endeavours leading up to the creation of the Inter-American Development Bank. The pattern is shaped by two interacting sets of relationships -- the Latin American countries' relationships with each other, and their collective and individual relationships with the USA. However, it was not by chance that the I<sub>A</sub>DB emerged as the first institution of its kind. Latin America had, in the 1950s, been trying to achieve a more integrated structure of political and economic relations. The movement created a demand which existing institutions could not meet, and the response to that was the creation of the I<sub>A</sub>DB. The notion of such an institution was formed long before the now generally accepted model of a "regional bank" had been devised, and the notion was developed within an evolving pattern of regional institutions and mechanisms.

The I<sub>A</sub>DB did indeed borrow a concept. In many respects

its articles of agreement are modelled on those of the IBRD. To this was added a new and creative element of regional identity. This formula was taken as the starting point and taking it as a necessary framework certain adjustments were made. This is true for all the three regional banks.

In the creation of the I<sub>A</sub>DB the United States played a subtle but complex role. The major part of the support system of the institution is the US initiative. However, implicit in the framework of agreement is the understanding that though the United States is the dominant partner, certain restraints exist within which that dominance can be exercised. There exists a certain paradox in that the creation of such an institution was consistently perceived by the Latin American nations as a means of strengthening their combined position vis-a-vis the USA and thus of ameliorating the effects of US paramountcy in the region.

## **HISTORY**

Briefly, to go into the history of the I<sub>A</sub>DB, the first seed of an idea germinated in 1890 when a proposal for such an institution was put forward at the First International

Conference of American States (Washington 1889-90). But this and subsequent proposals were turned down by the US administration which was not keen on an establishment competing with private banks. The early 1900s were a period of US hegemony, true, but that was also a period of increasingly organised opposition to that hegemony. In a way, the proposal for an Inter-American Bank was an expression of asserting inter-American rights.

With the outbreak of the Second World War the US position changed somewhat and in 1940 a convention for the establishment of the Inter-American Bank was signed. However, the proposal was rejected by the Congress and this trend continued until 1958. In the interim period, the reasons for American opposition were projected differently. With the establishment of the Bretton Woods institutions (the International Bank for Reconstruction and Development and the International Monetary Fund) in 1944, the US argued that the proposed institution within Latin America was unnecessary because now international financial needs would anyway be met. The parallel line of argument was that the need for a bilateral financial channel was covered by the US Export-Import Bank.

The outcome was that to the general resentment of US policy in Latin America were added other specific factors -- the Latin American's growing dislike of the policies of the World Bank, and their sense of grievance over their failure to secure even a modest share of American aid. Resentment against the World Bank was two-fold. It was felt that the loan operations were too conservative to begin with, in that it fell short of advancing loans for expenditure in the social sectors. Latin America also resented the internationalist policy of the World Bank, the policy which came to be known as 'leverage'. And as far as American bilateral aid was concerned, the bulk went to Europe and Asia.

With the signing of the Charter of Bogota in 1948 leading to the setting up of the Organisation of American States the political problems besetting the region had been solved. However, complaints against the economic policies aimed at Latin America continued along with the non-recognition by US of current Latin American opinion. It was only in 1958 that the outlook began to change with the US government announcing that it was ready to consider the establishment of an Inter-American financial institution.

After several rounds of negotiations between the US government and those of the Latin American states, the agreement was signed and came into effect on 30 December 1959.

### **STRUCTURE**

The Bank has certain characteristics which are the product of the particular circumstances of its origin and its continuing environment. Its special features cannot be explained in terms of the formal provisions of its Charter. According to John White, the articles of the Bank have constituted "little more than a legitimisation of the Bank's existence.... They came to represent an institutional chart rather than a charter".<sup>3</sup> The articles clearly point out the Bank's character as an instrument of Latin American regional politics. The character of the institution defines the position occupied by the US not just within the Bank but within the region as well. A significant feature of the Bank is that it is exceptionally well-endowed as far as

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3. John White, Regional Development Banks: The Asian, African and Inter-American Development Banks (New York, 1972), p.150.

resources are concerned.

Membership of the Bank is open to members of the Organisation of American States.<sup>4</sup> The USA, as a member of the inter-American system is a member and the principal subscriber. But Canada, though it has given financial support, is not eligible for membership. All the members of the OAS, the 20 Latin American republics and the USA signed the agreement establishing the Bank.

Subscriptions to the Bank were fixed largely by reference to the proposed US contribution. Initially, the authorised capital of the Bank was set at \$850 million of which the US subscription was to be 43%. The subscription of individual members were determined on the basis of their proportionate quotas in the IMF, with an upper limit of \$103,140,000 (Argentina and Brazil) and a lower limit of \$4,140,000 (Bolivia, Costa Rica, El Salvador, Haiti, Honduras, Nicaragua, Panama, Paraguay).<sup>5</sup> Subscriptions of all

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4. Article II.2b of the Articles of Agreement, Inter-American Bank. "Any member country of the OAS may apply for membership in the Bank by submitting a formal request in accordance with such terms as the Bank may determine." [Bye-laws, I<sub>A</sub>DB, Washington, 1967], p.4.

5. Articles of Agreement, Annex A.

members except the USA were equally divided into paid-in shares and callable shares. Of the US subscription 35% was to be paid in and 64% callable. Half of each members' paid-in subscription was payable in gold or dollars and half in the members' own currency.

The distribution of voting power in the Inter-American Bank is very close to the distribution of subscription, with a slight weighting in favour of the smaller members. Each member has a basic allocation of 135 votes, plus one vote for each of its shares in the capital stock.<sup>6</sup> The following table shows the figures.

**SHARES AND VOTING POWER OF MEMBERS OF THE  
INTER-AMERICAN DEVELOPMENT BANK, 1988** ✓

Member Country	\$ '000	Percentage of total Shares	Percentage of total Voting Power
Argentina	285,150	12.62	12.52
Bolivia	22,890	1.01	1.06
Brazil	285,150	12.62	12.52
Chile	78,300	3.47	3.48
Colombia	78,235	3.46	3.48

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6. ibid., Article VIII, 4.a.



Table...contd...

Member Country	\$ '000	Percentage of total Shares	Percentage of total Voting Power
Costa Rica	11,445	0.51	0.56
Dominican Republic	15,270	0.68	0.73
Ecuador	15,270	0.68	0.73
El Salvador	11,445	0.51	0.56
Guatemala	15,270	0.68	0.73
Haiti	11,445	0.51	0.56
Honduras	11,445	0.51	0.56
Mexico	183,300	8.11	8.07
Nicaragua	11,445	0.51	0.56
Panama	11,445	0.51	0.56
Paraguay	11,445	0.51	0.56
Peru	38,210	1.69	1.72
Trinidad and Tobago	11,445	0.51	0.56
USA	967,640	42.82	42.35
Uruguay	30,575	1.35	1.40
Venezuela	152,775	6.76	6.73
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Total	2,259,595	100	100

Source: Annual Report, 1988, Inter-American Development Bank, 1988, Appendix 1-5.

#### OBJECTS AND FUNCTIONS

According to the Articles of Agreement [A 1.1], the fundamental objective of the Bank is "to contribute to the acceleration of the process of economic development of the member countries, individually and collectively". They (the articles) also charge the Bank with "the responsibility of

cooperating with the member countries to orient their development policies toward a better utilisation of their resources, in a manner consistent with the objectives of making their economies more complementary and of fostering the orderly growth of their foreign trade".<sup>7</sup>

The functions are stated as:<sup>8</sup>

-- to promote the investment of public and private capital for development purposes;

-- to use the funds at its disposal for the financing of development, especially through such operations as will contribute most effectively to growth;

-- to encourage and to supplement private investment;

-- to help member countries make better use of their own resources, and in particular to help in making their economies more complementary and in fostering the growth of foreign trade; and

-- to provide technical assistance.

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7. Ten Years of Work in Latin America, Inter-American Development Bank (Washington, 1970), p.49.

8. Article I.2, n.4.

From the purposes and functions, the one aspect which emerges as being clearly stated, is the realisation and putting into practice of a sense of regional identity. One can look at it this way -- for the Inter-American Bank economic development is only an intermediate aim, its *ultimate objective being a more effective articulation of Latin American interests within the inter-American system*. In the matter of regional integration, the I<sub>A</sub>DB derived inspiration from Central America. In the words of Felipe Herrera, "No one can deny that the extraordinary growth of the Central American countries derives largely from economic integration over the last few years. Although some very difficult obstacles have emerged, ... Central America presents... a panorama of rapid growth in foreign trade, savings, investment, industry... which has benefitted all the countries of the sub-region and offers an example to the rest of the hemisphere".<sup>9</sup> The Bank has lent support to regional economic integration by financing intra-regional exports of capital goods, assisting in the creation of multinational projects (especially in the area of physical

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9. Address by Felipe Herrera, Proceedings of the Tenth Meeting of the Board of Governors of the I<sub>A</sub>DB (Guatemala, April 1969), pp.49-50.

infrastructure), etc. In 1965 the Bank set up the Institution for Latin American Integration (INTAL) to provide support for training, research and advisory activities directly related to the economic integration process.

#### **CAPITAL STRUCTURE**

The Bank's **ordinary capital resources** are the subscribed amount of the authorised capital stock, funds raised by borrowings, funds received in repayment, and income derived from loans and guarantees.<sup>10</sup>

That apart, it has three sources of funds, which give or lend on softer terms than its ordinary capital resources:

The **Fund for Special Operations (FSO)**, integrated into its own financial structures and intended to serve the bank's general purposes was that they were repayable partly or wholly in the borrower's own currency;<sup>11</sup>

the **Social Progress Trust Fund (SPTF)**, the uses of which are defined primarily in terms of social criteria.

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10. Article II.5, n.4.

11. ibid., Article IV.4.b.

This was established in 1961 and the resources of the fund were to be used in the priority sectors, viz., land settlement and improved land use, housing for low-income groups, community water supply and sanitation, and advanced education and training;

the **Non-Member Country Funds**, these arrangements resemble bilateral aid in that the countries providing the funds usually retain a controlling voice in their use.

With regard to these funds, a feature which distinguishes the I<sub>A</sub>DB from the World Bank was that the basis for these funds was laid when the Bank came into existence and they are administered under a single juridical personality.

#### **ORGANISATION AND MANAGERIAL PATTERN**

The highest authority of the Bank is the **Board of Governors** which normally meets once a year. The conduct of operations is under the **Board of Executive Directors**, numbering seven out of which one is elected by the USA.<sup>12</sup> The Executive Directors are elected in accordance with a procedure designed to ensure that two of them represent smaller

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12. Article VIII.3.b, n.4.

members exclusively.

The executive head of the Bank is the **President**, who is elected by a simple majority of the governors representing a simple majority of the voting power.<sup>13</sup> His term of office is five years. He is assisted by an **Executive Vice-President**.

In the recruitment of staff, the Bank maintains a wide discretion as regards geographical distribution. It has a mission in each member country, something which distinguishes it from the World Bank. Another notable feature of the Bank is that its formative years bore the stamp of a versatile and efficient President, Felipe Herrera, a factor which has contributed in no small measure to the success of its operations in the region.

The Bank's political perception of Latin America is an extension of the Latin Americans' view of themselves within the inter-American system. It has over the years sought to merge itself into the broad political movement for

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13. ibid., Article VIII.5.a.

integration. Its operations are set in the context of broad political issues.

In conclusion of the discussion on the Inter-American Bank, it must be said that it has sought close relations both with its member countries and with international financial institutions (by virtue of its status as a member of the OAS).

#### **THE AFRICAN DEVELOPMENT BANK**

A regional financial institution set up to promote the development of Africa had to face a couple of rather intimidating problems:

- (a) how to overcome Africa's extreme dependence and vulnerability to decisions taken by developed countries, and
- (b) the overhanging shades of colonialism, reflecting in the highly imbalanced functioning of the economic system.

Even after many of the African countries attained independence, the structure of their economy continued to operate in the colonial mould -- exporting primary goods to

former colonies, importing manufactures, with very little domestic development with most of the policies being dictated by the European powers. Under the circumstances an international financial institution operating in the continent would be faced with certain dilemmas.<sup>14</sup>

**First**, the institution would be required to serve a myth of independence in countries which continue to operate within a dependent framework.

**Second**, to contribute to increased independence it would have to provide additional resources which would ultimately come from the countries on which Africa depends.

And **thirdly**, in order to obtain such resources it must operate in accordance with the developmental criteria set by developed countries, while its role as a promoter of independence compels it to negate some of the criteria set by these countries.

The African environment presented the African Bank with three broad tasks:

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14. This has been discussed in detail by John White, n.3, p.89.



- \* the mobilisation or consolidation of resources;
- \* the use of those resources to acquire a key position in African development financing;
- \* the use of that position to propagate new prescriptions appropriate to African aspirations.

## **HISTORY**

Like the I<sub>A</sub>DB the African Development Bank (A<sub>F</sub>DB) was largely shaped by historical circumstances. But whereas the effective perception in the creation of the former was of a developed country (the USA), the A<sub>F</sub>DB was shaped almost exclusively by the way in which the Africans perceived themselves, their needs and their place in the global environment.

For Africa in the late 1950s the inability of the United Nations system to successfully implement special development projects like the Special United Nations Fund for Economic Development (SUNFED) came as a great disappointment. At the All African People's Conference held in Tunis in January 1960, it was proposed that a special development fund be set up for Africa. A resolution was adopted for "setting up an African investment bank to pro-

mote development projects". This proposal was taken up again at a session of the Economic Commission for Africa (ECA) in February 1961. The Commission appointed a Committee of Nine (consisting of representatives of nine member countries) to go into the necessary research. It had the difficult task of consulting the governments of various countries. While some countries were sceptical about the whole proposal, others viewed it merely as a means of increasing the flow of financial resources from developed countries, and still others had divergent views regarding the participation of non-African countries. The Committee's experience with the developed world was little better. While most of Europe remained non-committal, America offered some valuable suggestions. However, the American initiative was of little help because of the prevailing antipathy between France and the USA, in view of the fact that French approval was vital (France's hold over the region being still strong).

At this point the Committee came to the conclusion that the African nations would have to set up the institution and make it work, on their own. The Committee of Nine prepared

a draft agreement with advice from the World Bank, the I<sub>A</sub>DB, the UN secretariat, and the ECA, and adopted it in January 1963. The draft was modelled closely on the precedents of the World Bank group and the I<sub>A</sub>DB, combining elements of all these institutions together with some of the features of the I<sub>A</sub>DB's Social Progress Trust Fund. The draft was discussed at a conference of finance ministers held in Khartoum in July-August 1963.

Numerous contentious issues cropped up at Khartoum, relating to matters as diverse as membership, the scope of the bank's operations, squabbles between the francophone, anglophone and Arabic-speaking countries regarding the bank's headquarters and the office of the president, etc. In general terms, these issues can be reduced to three central questions: how to devise an adequate institutional base for African cooperation; how to allay the smaller countries' fear that cooperation would lead to domination by those few African countries which were relatively advanced; and how to devise a style of functioning appropriate to the peculiar conditions of African dependence and balkanisation. These are questions relating to the confluence of the politics and economics of the African continent. It was not to

be expected that the African Bank alone would succeed in resolving these issues of such profound significance, but at least an attempt was made to squarely face them.

Once the decision was taken at Khartoum to exclude the developed countries, the African nations were confronted with the harsh realities of financial shortage, due to the lack of external resources. A token gesture was offered by France in the form of technical assistance and the Americans were willing to consider loans for specific projects. The World Bank's advice was to treat the bank "as a financial institution and not as a political instrument"<sup>15</sup> along with an offer to train some of the Bank's staff and co-finance "any well-designed project... which meets the tests of appraisal and the criteria of the World Bank". The I<sub>A</sub>DB was more enthusiastic in its support to the evolving institution.

The Bank formally came into existence on 10 September 1964 with 25 founding members, and operations commenced from 1 July 1966.

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15. Summary Record, p.240.

## STRUCTURE

The articles of the A<sub>F</sub>DB constitute a broadly permissive document, which left it free to evolve in accordance with perceived priorities.

Membership is confined to states of the African continent and adjacent islands.<sup>16</sup> It was however resolved in Khartoum in 1963 that South Africa would not be eligible until its Government terminated its apartheid policies.

The subscriptions of the member states were fixed in accordance with a formula based on population, gross national product, foreign trade, and government revenue. In order to avoid extreme disparities minimum and maximum subscriptions were set at the equivalents, respectively, of \$1 million and \$30 million. The capital stock is divided into 25,000 shares. Half of these shares are callable, the other half paid-in. A distinct feature of the A<sub>F</sub>DB is that the paid-up shares are payable wholly in gold or convertible

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16. Article 3, ~~Agreement~~ establishing the African Development Bank.

currency.<sup>17</sup>

Voting rights are weighted so as to give the smaller members more than a proportionate share of the total voting power.

#### **OBJECTS AND FUNCTIONS**

According to the Articles of Agreement, the fundamental objective of the Bank is "to contribute to the economic development and social progress of its members -- individually and jointly".<sup>18</sup>

The principal objectives are stated as:

\* to use the resources at its disposal for the financing of investment projects and programmes relating to the economic and social development of its members, and those designed to make the economies of its members increasingly complementary and to bring about an orderly expansion of their foreign trade;

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17. ibid., Article 7.

18. ibid., Article 1.

\* to mobilise and increase resources for the financing of investment projects;

\* generally to promote investment in Africa of public and private capital in programmes designed to contribute to economic development and social progress of its members; and

\* to cooperate with national, regional and sub-regional institutions in Africa, with international organisations pursuing a parallel purpose and with other institutions concerned.

#### **CAPITAL STRUCTURE**

The Bank's ordinary capital resources are defined<sup>19</sup> as the subscribed capital stock, funds raised by borrowing, funds received in payment of past loans, income derived from the Bank's loans and guarantees, and any other funds received which do not constitute "special resources". The Bank is also empowered to receive and administer special funds.<sup>20</sup> For purchases in member countries, the Bank may ask the member to lend its currency.

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19. ibid., Article 9.

20. ibid., Article 8.

## ORGANISATIONAL STRUCTURE

The highest authority is the **Board of Governors**, on which each member is represented by a Governor and an alternate Governor. A Governor is usually the finance minister of his country, quite like the practice in the World Bank. The general operations are under the control of the **Board of Directors**, numbering nine. They are elected by the Board of Governors in a manner ensuring an even distribution of voting power.

The Board of Directors elects the **President** who is the executive head. In staffing the Bank, the President is required to try and recruit Africans, especially for the senior posts.

The articles of the A<sub>F</sub>DB give it a great degree of operational freedom and finance may be provided "for any member, political sub-division... or for any institution... in... any member as well as for international or regional agencies or institutions concerned with the development of Africa". It may make or participate in direct loans, invest



in equity or guarantee loans made by others.<sup>21</sup> The Bank's resources are to be used mainly for the foreign exchange costs of projects, but it may also finance local expenditure under special circumstances.

The African Development Bank has operated under enormously difficult circumstances. For one, in the initial years it faced tremendous resource crunch plus the shortcomings of having to operate with a shortage of skilled personnel among numerous small and economically weak countries. No non-African members meant very little money. In the evolution of the Bank, what is of importance is the need for coordinating the members efforts to generate additional resources and also to cooperate with UN agencies in formulating an appropriate framework for development.

The three fundamental requirements, then, are a stronger African commitment to the Bank; a clearer identification, in a political context, of its place in the range of African institutions; and a generous provision of special funds.

From the study of regional banking as such and the A<sub>F</sub>DB

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21. ibid., Article 14.

and I<sub>A</sub>DB in particular, it can be stated that regional banks are essentially political instruments for resistance to, or at least amelioration of, the developed countries' domination of the framework of international economic relations. This is the crucial difference between regional banks and the World Bank.

## CHAPTER III

### THE ASIAN DEVELOPMENT BANK: INSTITUTIONAL ASPECTS

#### BACKGROUND

The Asian Development Bank (ADB) is the last of the regional financial institutions to have been established. The Bank was set up in response to the perceived need among the Asian countries for a source of development finance catering to the specific needs of the region. However, "region" as an overarching entity is rather difficult to conceptualise in Asia. In Central-South America and the African continent, a set of regional environmental factors worked in conjunction with the global environment to create the Inter-American and the African Development Banks respectively. By contrast, in Asia there are several sets of regional environments, each with its specific and divergent characteristics -- ranging from the world's largest democracy through smaller and weaker states to highly developed and technologically advanced nations. The areas are diverse in terms of international relations also. Then, the levels of development vary widely. For an institution born into this

configuration the central issue on which the Bank had to focus was, "To which of our environments shall we respond?"

The operational choices that lay before the Asian Bank when it was perceived were manifold:

- the vast area of the Asia-Pacific region accounting for more than half the world's population,

- the range and scale of poverty,

- the direct confrontation between the two power blocs in certain parts, and

- the complex interaction of political, social, economic and cultural factors.

One feature was especially relevant to the formation and evolution of the Bank. The pattern of relations between the developed and developing countries was more stable in Asia than elsewhere, distorted neither by the overwhelming presence of a single power, as in Latin America, nor by the involvements of the post-colonial period as in Africa. Hence, the assumption was never seriously questioned that the Bank should seek the broad support and participation of the developed countries; in this respect it remains distinct from the I<sub>A</sub>DB with only the USA on the aid-giving side; and

the A<sub>F</sub>DB, with no developed-country members.

The first formal discussion regarding the possibility of establishing an Asian development bank began in August 1963, under the patronage of the Economic Commission for Asia and the Far East -- ECAFE (presently called the ESCAP -- Economic and Social Commission for Asia-Pacific). This was immediately after the agreement establishing a development bank in Africa was signed in Khartoum. The proposal to establish an Asian bank originated in an institutional framework, that of the ECAFE (primarily a regional economic institution), rather than in direct discussions between sovereign states. It was a framework which gave entry to the developed countries from the start, and which gave to the proposal itself a purely economic initiative. In contrast, the notion of an inter-American bank evolved from a long series of attempts, on the part of the Latin American nations, and was made a practical possibility by a political initiative of the USA. In Africa, a regional development bank was first proposed at a political conference and was only subsequently taken over by the Economic Commission for Africa.

From the first formal proposal to the signing of the agreement establishing the Bank, the time spent was just over two years; this period falls into two phases. From August 1963 to April 1965, the initiative and the enthusiasm lay almost exclusively with the ECAFE. From April 1965 upto the signing of the agreement and after, additional and crucial momentum was provided by the USA, more specifically by Eugene Black, former president of the World Bank.

For the structure and purposes of the proposed bank, precedents had been set by the World Bank, the I<sub>A</sub>DB and the A<sub>F</sub>DB. The principal issue around which discussion revolved was the mobilisation of external support and here lies the significance of the part played by the USA. Subsidiary issues which arose were for the most part related to the problem of how to balance the need for external support against the need to give the institution an Asian character. In this connection, the position of Japan as an **Asian and a developed** country was certainly crucial. Initially Japan was reluctant to become totally committed, lest it found itself bearing disproportionate financial burden. It was only when American support was assured that Japan came to

accept its role.

Given the decision to establish the Bank as a partnership between developed and developing countries, the pattern of membership which emerged had the USA in the dominant position among the non-Asian developed members and Japan holding the balance between the non-Asian countries and the Asian developing nations.

#### **ORIGIN**

As mentioned earlier, 1963 was the year in which the proposal to establish an Asian bank was floated. U. Nyun, ECAFE's executive secretary, is considered by many as the originator of the idea. Under his initiative, at the nineteenth session (1963) of ECAFE a resolution was passed calling for accelerated measures of regional economic cooperation. A ministerial conference was convened in Manila in December of the same year in preparation of which a group of experts made nine major recommendations. One of them was the establishment of a regional bank "to assist in mobilising and directing resources for regional projects,

joint ventures and for promoting intra-regional trade".<sup>1</sup> This proposal was endorsed by the ministerial conference. At that stage, the proposal to establish a regional bank was seen as one of a set of proposals which amounted to a broad strategy for intensified cooperation within the region. Another group was formed by U. Nyun to give more detailed consideration to the establishment of an Asian bank. This was the Ad Hoc Working Group of Experts on the Asian Development Bank which met in Bangkok in October 1964; one of the members of the group was Takeshi Watanabe, a Japanese financial consultant who subsequently became the founder president of the Bank. The group's report showed a change of emphasis.<sup>2</sup> The strategic view of the Bank as one of a broad range of instruments for changing the internal structure of the region gave way to a narrower, more institutional view, in which the focus was on the functions, resources, and the structure of the bank itself.

The main portion of the report was taken up with con-

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1. ECAFE Annual Report for 1963/64 (E/CN.11/662/Rev.1), p.20.
  2. The change of focus is evident in the following report: Regional Economic Cooperation in Asia and the Far East: The Asian Development Bank and Trade Liberalisation, (UN, 1965), E/CN.11/707.



sideration of the bank's capital structure, subscription, voting, etc., and its recommendations were close to the provisions eventually adopted.<sup>3</sup> However, in spite of the group's concern with the bank as a means of bringing additional resources into the region, the report paid virtually no attention to the establishment of a special fund, financed by the developed members to lend on soft terms.

The group had no time to prepare a draft charter and it was subsequently done by the ECAFE secretariat. The draft charter was closely modelled on that of the I<sub>A</sub>DB. However, in spite of the I<sub>A</sub>DB's involvement, the model that was taking shape was closer in character to the World Bank. What was emerging was a fairly straightforward financial institution, in which the developed countries would have a substantial role, and the chief purpose of which would be the financing of economic projects selected on the criterion of comparative rates of return.

The model was presented to the twenty-first session of ECAFE, at Wellington, New Zealand in March 1965. Although

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3. This has been elaborated by White, op. cit., p.43.

most countries in the developed category expressed their willingness in principle, it required the services of a consultative committee (with representatives from Sri Lanka, India, Iran, Japan, Malaysia, Pakistan, the Philippines, Vietnam and Thailand) to find out about the extent of their participation in the proposed bank.

In the meantime came the war in Vietnam, and America in its efforts to minimise the mess it had made of its affairs in Asia, promised a substantial investment in the Asian "cooperative effort for development". To carry the American proposals through, President Johnson appointed Eugene Black, a former president of the World Bank. In July, Black went on a fund-raising tour of Europe when the consultative committee visited 34 countries, including fourteen outside Asia. With the assurance of American support, Japan too came forward with a commitment -- amounting to a \$200 million subscription, that is, 20% of a suggested total authorised capital of \$1,000 million.

In the course of discussions, one could gradually trace a change of focus from the political to the purely financial. One indication of the extent to which the context had

acquired economic overtones was the decision of Switzerland to become a full member with a \$5 million subscription. This was remarkable considering the fact that the country had consistently refused to join other institutions like the World Bank and the IMF. It was proposed that regional members should subscribe 60% of the capital and the non-regional ones the remaining 40%, Japan was to be in a key position, holding the balance between the Asian developing and the non-Asian developed countries.

In August 1965 the consultative committee met in Bangkok and prepared its report, the thrust of which was: "The principal advantage in setting up the Bank would seem to be an increase in the total financing available for development".<sup>4</sup> Then followed a preparatory meeting of officials from 31 countries, at which a draft charter was adopted, which incorporated numerous amendments to the version submitted by the consultative committee. A fundamental issue which was considered was that of the balance of control between regional and non-regional members, more particularly

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4. Ibid., p.47.

between smaller regional members and the larger ones. It was decided that voting should be related to subscriptions, with only a small redress in favour of the smaller members through the allocation of part of the voting power on the basis of parity. The impact of this decision was slightly softened by the incorporation of a provision that the regional members which included Japan, Australia and New Zealand should always have a majority of the voting power, and on this basis the "Asian" character of the institution was presumed to be kept intact.

At this meeting it was evident that the Soviet Union and France would not cooperate with the Bank's establishment. Britain initially seemed reluctant to make an appropriate monetary contribution, but subsequently the offer was revised. In November, the consultative committee held its final meeting, in Manila, where it considered issues like allocation of subscriptions, election of directors and the final programme for the actual set-up.<sup>5</sup> The final report was presented at a conference of Asian ministers in Manila -- the second Ministerial Conference on Asian

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5. ECAFE Annual Report for 1965/66 (E/CN.11/739/Rev.1), p.28.

## Economic Cooperation.

The Conference accepted the draft charter as presented by the consultative and preparatory committees, but the question of the location of the bank's headquarters remained to be settled. The two serious contenders, in political terms were Manila and Tokyo. After rounds of deliberations, Manila managed to bag the headquarters, (a position not wholly agreeable to all parties), with Japan settling for the post of president -- Takeshi Watanabe set the trend.

The ministerial conference was immediately followed by a three-day conference of plenipotentiaries, at which the agreement establishing the bank, its charter, was unanimously adopted and opened for signature on 4 December. It was signed by nearly all those countries represented with a provision that it would enter into force when at least 15 signatories, including at least 10 countries in the ECAFE region, and representing not less than 65% of the bank's authorised capital, had ratified the agreement.<sup>6</sup> Under this provision the agreement entered into force on 22 August

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6. Articles of Agreement Establishing the Asian Development Bank, A.64, p.35.

1966.

In a period of 20 months from the establishment of the consultative committee to the inaugural meeting, the ADB was established.

## **STRUCTURE**

The ADB, as the last of the three regional financial institutions to be set up, could draw upon the structure of its precedents. In terms of operational principles, it possesses powers broadly similar to those of the two other regional banks; and in its membership and capital structure it is closer to the World Bank. The fact that most of the features of the Bank were derived from existing models gave it some advantages -- the experience that went into the articles of the Asian Bank resulted in a document of great technical competence constituting a highly practical blueprint; also there are few of the legal ambiguities which exist in the articles of the other institutions.

### **Membership**

Membership of the Bank is open to members and associate

members of the ESCAP, to other regional countries which are members of the United Nations, and to developed countries outside the region, subject to the same provision about UN membership.<sup>7</sup>

Admission to membership in the Bank requires an affirmative vote of two-thirds of the total number of Governors representing not less than three-fourths of the total voting power of the member countries.

The Bank is currently owned by 54 member governments, of which 38 are regional and the remaining 16 non-regional members. The Bank had 31 founding members; the industrial members constitute the main source of funds for Bank operations, while the developing member countries (DMCs) with three exceptions are the Bank's borrowers. Table 3.1 gives the list of members of the Bank.

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7. Ibid., Article 3, p.2.

**Table 3.1: Members (date of membership)**

Afghanistan, Republic of	1966	Micronesia, Federa- ted States of	1990
Australia	1966	Mongolia	1991
Austria	1966	Myanmar	1973
Bangladesh	1973	Nauru	1991
Belgium	1966	Nepal	1966
Bhutan	1982	Netherlands	1966
Cambodia	1966	New Zealand	1966
Canada	1966	Norway	1966
China, People's Republic of	1986	Pakistan	1966
Cook Islands	1976	Papua New Guinea	1971
Denmark	1966	Philippines	1966
Fiji	1970	Singapore	1966
Finland	1966	Solomon Islands	1973
France	1970	Spain	1986
Germany	1966	Sri Lanka	1966
Hong Kong	1969	Sweden	1966
India	1966	Switzerland	1967
Indonesia	1966	Taipei, China	1966
Italy	1966	Thailand	1966
Japan	1966	Tonga	1972
Kajakhstan	1993	Tuvalu	-
Kiribati	1974	Turkey	1991
Korea, Republic of	1966	United Kingdom	1966
Lao People's Demo- cratic Republic	1966	United States	1966
Malaysia	1966	Vanuatu	1981
Maldives	1978	Viet Nam, Socialist Republic of	1966
Marshall Islands	1990	Western Samoa	1966

Source: Asian Development Bank Publications, 1994.

### **Subscription**

Subscriptions were allocated to regional members in accordance with a scale derived from gross domestic product,



adjusted for population, total exports, and total tax revenues. The subscriptions of non-regional members were largely a matter of what they were prepared to offer, above a prescribed minimum of \$5 million.<sup>8</sup> There is no other stipulation of maximum and minimum subscriptions, apart from a provision that the proportion of capital stock held by regional members shall not be less than 60% of the total.<sup>9</sup>

The authorised capital stock, set initially at \$1,000 million was raised to \$1,100 million at the inaugural meeting. The authorised capital is divided into shares of \$10,000 each. Half of each member's shares are callable, and half are to be paid in, in five equal annual instalments. The paid-in portion is divided into two halves -- one half is payable in gold or convertible currency, the other half in the currency of the member. This provision has the effect of doubling the subscriptions of those members which have convertible currencies, i.e, the developed countries, in relation to the subscription of the developing members. Table 3.2 shows the country-wise subscription of capital

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8. Agreement, Annex A, p.37.

9. Ibid., Article 5(1), p.4.

stock and voting power, as of December 1992.

**Table 3.2: Statement of Subscriptions to Capital Stock and Voting Power**  
**31 December 1992**  
**Expressed in Thousands of United States Dollars**

Members	Subscribed Capital					Voting Power	
	No. of Shares	Per Cent of Total	Par Value of Shares			No. of Votes	Per Cent of Total
			Total	Callable	Paid-in		
<b>REGIONAL:</b>							
Afghanistan, Rep. of	1,195	0.071	\$ 16,431	\$ 11,179	\$ 5,253	9,271	0.441
Australia	102,370	6.093	1,407,588	1,238,586	169,001	110,446	5.259
Bangladesh	18,064	1.075	248,380	218,556	29,824	26,140	1.245
Britain	110	0.007	1,513	1,224	289	8,186	0.390
Cambodia	875	0.052	12,031	8,181	3,850	8,951	0.426
China, People's Rep. of	114,000	6.786	1,567,500	1,379,249	188,251	122,076	5.813
Cook Islands	47	0.003	646	578	69	8,123	0.387
Fiji	1,203	0.072	16,541	14,548	1,994	9,279	0.442
Hong Kong	9,635	0.574	132,481	116,573	15,909	17,711	0.843
India	112,005	6.667	1,540,069	1,355,173	184,896	120,081	5.718
Indonesia	96,350	5.735	1,324,813	1,165,766	159,046	104,426	4.973
Japan	276,105	16.435	3,796,444	3,340,631	455,813	284,181	13.533
Kiribati	71	0.004	976	853	124	8,147	0.388
Korea, Rep. of	89,123	5.305	1,225,441	1,078,330	147,111	97,199	4.629
Lao PDR	246	0.015	3,383	2,723	660	8,322	0.396
Malaysia	48,175	2.868	662,406	582,876	79,530	56,251	2.679
Maldives	71	0.004	976	853	124	8,147	0.388
Marshall Islands	47	0.003	646	578	69	8,123	0.387
Micronesia, Fed. States of	71	0.004	976	853	124	8,147	0.388
Mongolia	266	0.016	3,658	3,218	440	8,342	0.397
Myanmar	9,635	0.574	132,481	116,573	15,909	17,711	0.843
Nauru	71	0.004	976	853	124	8,147	0.388
Nepal	2,601	0.155	35,764	31,460	4,304	10,677	0.503
New Zealand	27,170	1.617	373,588	328,735	44,853	35,246	1.678
Pakistan	38,540	2.294	529,925	466,304	63,621	46,616	2.220
Papua New Guinea	1,660	0.099	22,825	20,103	2,723	9,736	0.464
Philippines	42,152	2.509	579,590	510,015	69,575	50,228	2.392
Singapore	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Solomon Islands	118	0.007	1,623	1,430	193	8,194	0.390
Sri Lanka	10,260	0.611	141,075	124,135	16,940	18,336	0.873
Taipei, China	19,270	1.147	264,963	233,159	31,804	27,346	1.302
Thailand	24,087	1.434	331,196	291,431	39,765	32,163	1.532
Tonga	71	0.004	976	853	124	8,147	0.388
Vanuatu	118	0.007	1,623	1,430	193	8,194	0.390
Vietnam, Soc. Rep. of	6,038	0.359	83,023	65,643	17,380	14,114	0.672
Western Samoa	58	0.003	798	646	151	8,134	0.387
<b>Total Regional</b>	<b>1,057,898</b>	<b>62.970</b>	<b>14,546,098</b>	<b>12,786,125</b>	<b>1,759,973</b>	<b>1,348,634</b>	<b>64.222</b>
(Forward)							

Members	Subscribed Capital					Voting Power	
	No. of Shares	Per Cent of Total	Par Value of Shares			No. of Votes	Per Cent of Total
			Total	Callable	Paid-in		
<b>NON-REGIONAL:</b>							
Austria	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Belgium	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Canada	92,543	5.508	1,272,466	1,119,704	152,763	100,619	4.791
Denmark	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Finland	6,020	0.358	82,775	72,834	9,941	14,096	0.671
France	41,178	2.451	566,198	498,218	67,980	49,254	2.345
Germany	76,534	4.556	1,052,343	925,994	126,349	84,610	4.029
Italy	31,975	1.903	439,656	386,870	52,786	40,051	1.907
Netherlands	18,147	1.080	249,521	219,574	29,948	26,223	1.249
Norway	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Spain	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Sweden	6,020	0.358	82,775	72,834	9,941	14,096	0.671
Switzerland	10,325	0.615	141,969	124,919	17,050	18,401	0.876
Turkey	6,020	0.358	82,775	72,834	9,941	14,096	0.671
United Kingdom	36,131	2.151	496,801	437,168	59,634	44,207	2.105
United States	267,113	15.900	3,672,804	3,231,841	440,963	275,189	13.105
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Total Non-Regional	622,106	37.030	8,553,957	7,526,956	1,027,001	751,322	35.778
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TOTALS	1,680,004	100.000	\$23,100,055	\$20,313,081	\$2,786,974	\$2,099,956	100.000

Source: ADB Annual Report, 1992, pp.130-131.

### Voting Power and Financial Influence

In examining the power structure of the Bank a distinction should be made between formal voting power and

actual influence on Bank operations. Formal voting is predominantly proportional to economic contributions, and is based 80% on capital subscriptions and 20% on equal distribution of votes. However, this formula does not reflect the real influence of the Bank's dominant donors as it takes account of neither special fund contributions (which in fact constitute a much larger financial contribution from donors than capital subscriptions) nor the weight carried by the potential threat that contributions will not be renewed unless the donors policy requirements are met.

Voting rights are slightly weighted in favour of the smaller members. Each member has one vote for each share he holds. The 20% of the votes which are allocated as basic votes, is parallel to the 10.1% in the IBRD, 3.2% in the I<sub>A</sub>DB and 50% in the African Bank. Decisions on most subjects are by simple majority, which means it would be impossible for the developing countries to muster a blocking vote, even if it were tactically feasible for them to do so. It must be emphasized, however, that the precise voting power of any particular group is not very significant. The Asian Bank, like its sister institutions takes great pains to avoid the kind of confrontation which can only be re-

solved by a formal vote.

In the negotiations on the drafting of the Bank charter, a number of decisions of key importance to the power structure and decision-making process of the Bank were worked out. The two most important were the distribution of voting power and the size of and distribution of seats on the Board of Directors. Underlying the question of voting power were two issues -- the need to balance the regional and non-regional countries' power, to ensure the regional nature of the Bank, and the need to strike a balance between proportionality, in relation to financial contributions and equality. The latter principle was important to guarantee a degree of voting power to the Bank's developing member countries (DMCs), but relating voting to economic contributions was important as an incentive for the financial participation of the donors.

To ensure that control of the Bank remained with the Asian countries, it was decided that a minimum of 60% of total voting strength should be reserved for the regional countries. With regard to financial proportionality and equality, it was agreed, following the example of other

multilateral banks, to adopt a system consisting of basic votes distributed on an equal basis and additional votes based on the number of shares subscribed.<sup>10</sup> The percentage of basic votes, which was crucial in determining how financially weighted the voting system would be, however, was the subject of extensive and controversial discussion.

Both the developing and the Socialist bloc of countries participating in the negotiations favoured a large share of basic votes while Japan, the USA and other donors wanted higher financial proportional, to ensure their control over Bank operations. Japan pressed for a single digit percentage and established 10% as its upper limit, in line with the model of the World Bank. The US also favoured a solution along the lines of 20% as an absolute ceiling. Eventually, a consensus in support of 20% was reached.

The distribution of voting power can be examined in terms of regional and non-regional countries as stressed by the Bank, or in terms of donors and DMCs, which is more relevant for most policy issues. The voting power of the

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10. R. Krishnamurthi, Asian Development Bank: The Seeding Days (Asian Development Bank, Manila, 1977), pp.75-78.

regional members including Japan, Australia and New Zealand has been well over 60%, but it is considerably more significant that the donors have had continuous control over the Bank, with mean voting power of approximately 59% compared with the DMCs 41%. With the Bank's acceptance of China as a member in 1986, the DMCs' voting power has increased. At the same time the major donors have taken steps to ensure that their share of votes is not eroded. Table 3.3 shows the countries with the highest voting power.

**Table 3.3: Voting Power**

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1.	Japan	13.533
2.	USA	13.105
3.	PRC	5.813
4.	India	5.718
5.	Australia	5.259
6.	Indonesia	4.973
7.	Canada	4.791
8.	Korea	4.629
9.	Germany	4.029
10.	Malaysia	2.679

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Source: Asian Development Bank, 1992.

#### **OBJECTS AND FUNCTIONS**

The stated purpose of the Asian Bank is "to foster

economic growth and cooperation" in the Asian region and "to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually".<sup>11</sup> This definition of the Bank's purpose is rather more precise, and therefore perhaps more restrictive, than the equivalent articles of the I<sub>A</sub>DB and the A<sub>F</sub>DB. For the first time, economic development was explicitly equated in legal phrases with economic growth.

The ADB fulfils its functions by:

- promoting investment of public and private capital for development;
- using the resources at its disposal as loans for the development of its developing members;
- meeting the requests of its developing members for assistance in coordinating their economic development plans and policies;
- providing technical assistance to help prepare, finance and carry out development projects and programmes

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11. Article 1, n.6, p.1.



and advisory services;

-- cooperating with the United Nations, with public international organisations, other international institutions and national entities (both public and private) that are concerned with the investment of development funds in the region and getting them interested in new opportunities for investment and assistance; and

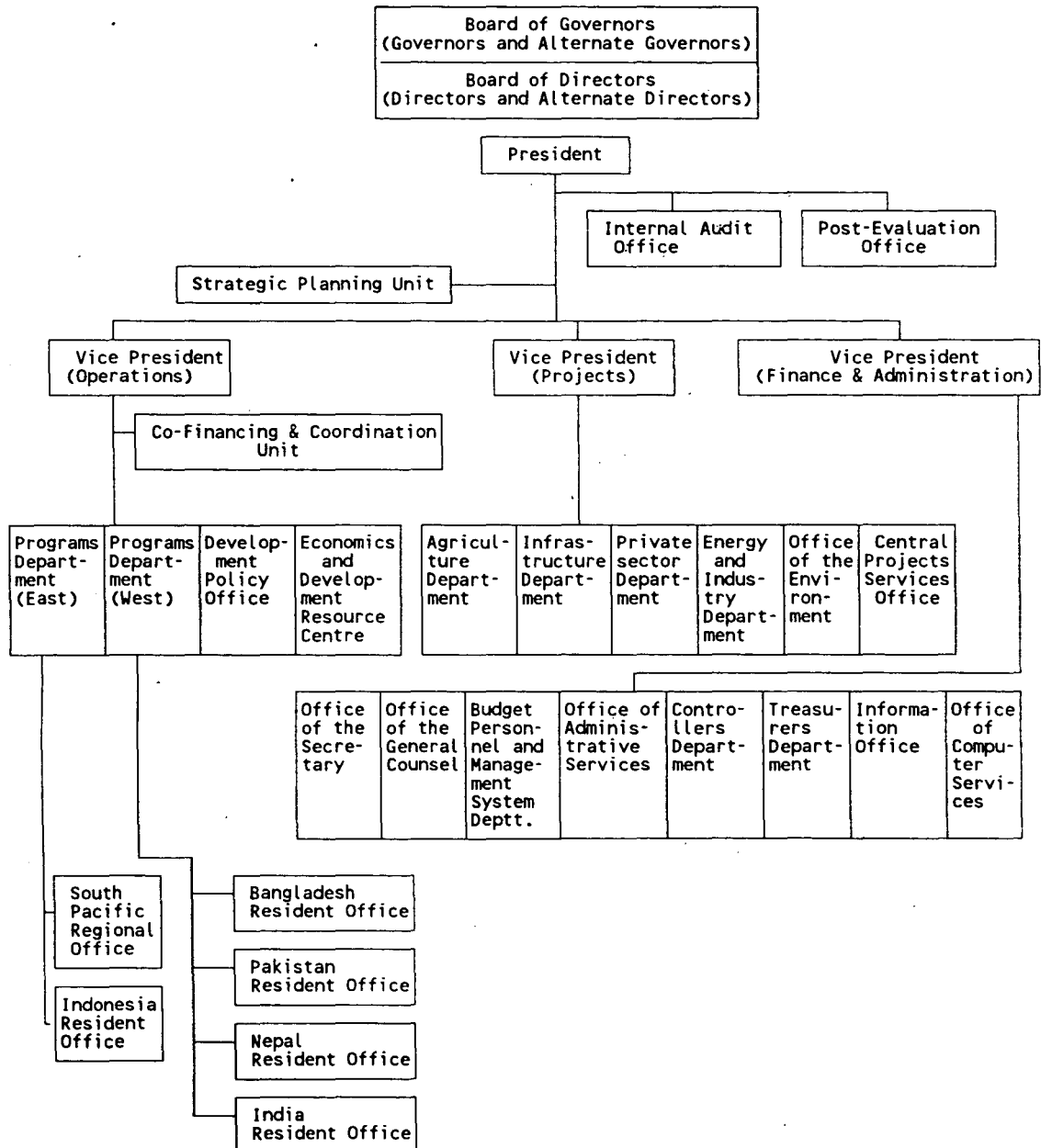
-- undertaking other activities and providing other services as are necessary to foster economic growth and cooperation in the region.

#### **ORGANISATIONAL STRUCTURE AND DECISION-MAKING**

The organisational structure of the Bank consists of a **Board of Governors, a Board of Directors, a President, three Vice-Presidents, Heads of Departments/Offices,** and other officers and staff. The Bank's decision-making bodies are the Board of Governors and the Board of Directors, while policies and programmes are implemented by the Bank's staff, headed by its President. In principle, the powers of the Bank are vested in the Board of Governors, which is reserved the right, among other things, to decide questions of membership, change the authorised capital stock, amend the

charter, and elect the executive directors and the president.<sup>12</sup>

Figure 3.1: Asian Development Bank - Organization Structure (As of March 1993)



Source: Asian Development Bank.

12. Article 28, n.6, p.20.

The **Board of Governors** convenes annually for three days in late April or early May and consists of a governor and an alternate governor from each member country. (The great majority of the governors are the finance ministers of their respective countries). In practice, the **Board of Directors**, numbering 12, which convenes once or twice a week under the chairmanship of the President, is responsible for directing the operations of the Bank, and takes decisions concerning the approval of loans, technical assistance, and other operational activities.<sup>13</sup> The Directors (each with an alternate), eight representing regional countries and four -- non-regional countries -- are elected by the Board of Governors, and are full-time Bank officials.

The **President** is elected by the Board of Governors for a term of five years, after which he may be re-elected. He is chairman of the Board of Directors and is assisted in his work by the Vice-Presidents who are appointed by the Board of Directors on his recommendation. The President, who is by tradition a Japanese, is responsible for the management

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13. Article 31, ibid., p.22.

of the Bank staff and operations. In principle he is responsible to the Board of Directors, but in practice Bank presidents have exercised considerable independence in running the Bank. The three **Vice-Presidents** are responsible for operations, projects, and finance and administration. Figure 3.1 charts out the organisational structure of the Bank.

The number of executive directors on the board and their distribution between regional and non-regional members was a major question of contention in drafting the Bank charter, and was closely linked with the basic vote issue. When the 20% compromise was reached in the basic vote question, the DMCs demanded compensation in the form of greater representation on the Board of Directors. Due to the strongly opposed views of the donors and the DMCs, however, no final settlement was reached and a compromise was worked out at seven regional and three non-regional directors for the first two years of Bank operations. As part of this arrangement, the Bank charter included the stipulation that after two years of operations the Board of Governors "shall review the size and composition of the Board of Directors, and shall increase the number of directors as appropriate,

paying special attention to the desirability... of increasing representation... of smaller, less developed member countries".<sup>14</sup> At the 1969 annual meeting however, following considerable pressure from the donors, it was agreed to increase the Board by two directors, one regional and one non-regional, to be implemented in 1971. Thus, while the original intention has been to increase the representation of borrowers, the increase actually weakened regional representation on the Board from a ratio of 7:3 to 8:4.

Separate votes are held for the eight regional and four non-regional executive directors by their respective groups of Governors, and due to the voting formula applied only Japan, the US, India, Australia and China have been able to secure permanent directorships for themselves. The other directorships have been worked out by the establishment of voting groups along broad lines of political, economic and geographic affinity. Six directorships with a total of approximately 55% of the voting power and responsible for about 90% of Bank funding, are controlled by the donor

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14. Article 30, n.6, p.21.

countries, while the six directorships under the control of the developing members represent 45% of voting power and 10% of financial contributions.

As concerns the matter of how voting power is translated into actual influence -- in the Board of Governors, each Governor casts the vote of the countries he represents. The annual meeting though, is largely a formality, and the negotiation of key issue is carried out in the Board of Directors prior to the Governors' meeting. Most board decisions are taken by a process of consensus, and major political differences are resolved during the preparation of policy initiation. The influence exerted by individual executive directors on the policies adopted and promoted by the Bank has become increasingly important, and tends to be closely related to financial contributions. Consequently, both the USA and Japan have been notably successful in introducing their policy initiatives.

The President is given a relatively free hand in staffing the Bank, being required only to 'pay due regard' to the need to recruit staff on a wide geographical basis within

the region.<sup>15</sup> Staff are recruited on the basis of the Bank's specific needs for professional expertise and the technical competence of the candidates.

The Bank has 21 departments and offices (as shown in Figure 3.1) at its Headquarters in Manila. Offices of Management comprise the President's Office, the strategic Planning Unit and the Cofinancing and Coordination Unit.

#### **FINANCIAL RESOURCES**

The financial resources of the Bank consist of: **ordinary capital resources** comprising paid-in capital and reserves, and funds raised through borrowings; and

**Special funds** made up largely of contributions from member countries for the Bank's concessional lending and technical assistance activities.

In making loans the Bank provides funds either from its ordinary capital resources (OCR) or Special Funds. Loans from OCR, which account for 66% (according to 1992 figures)

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15. Article 34(6), ibid., p.24.

of Bank lending, are generally made to member countries which have attained a somewhat higher level of economic development. Loans from the Asian Development Fund (ADF) are made on highly concessional terms and almost exclusively to the poorest borrowing countries.

The Bank's lending rate for loans from its OCR is determined every six months. The rate has ranged from 6.36 to 10.5% a year depending on the Bank's cost of borrowing funds. The repayment period varies from 15 to 30 years, including a grace period of three to seven years. Concessional loans, for the poorest borrowing countries, carry only a service charge of 1% a year with repayment periods of 35 to 40 years, including a ten-year grace period. Ordinary loans are made for all sectors of Bank activity, and have concentrated on the member countries with a relatively high GNP per capita, particularly the ASEAN and the East Asian developing member countries (DMCs).

The Bank may make or participate in direct loans to its developing member governments, to any of their agencies, instrumentations or political subdivisions, to public or private entities or enterprises operating within these



countries and to international and regional entities concerned with economic development within the region. The Bank does not, however, finance any undertaking in the territory of a member country without the approach of the member. Apart from lending, the Bank is authorised by its Charter to provide or participate in guarantee loans to its developing member countries.

In addition to its OCR, the Bank is authorised by its charter to establish and administer Special Funds, which consist of the Asian Development Fund (ADF), the Technical Assistance Special Fund (TASF) and the Japan Special Fund (JSF). Special Funds resources are at all times, held, used and committed separately from ordinary capital resources.

**Table 3.4: Loan Approvals**

	1968-91 (US \$ million)			%
	OCR	ADF	Total	
Afghanistan	-	95	95	0.25
Bangladesh	11	3,561	3,572	9.51
Bhutan	-	39	39	0.10
Cambodia	-	2	2	0.00
China	1,002	-	1,002	2.67
Cook Islands	-	10	10	0.03
Fiji	103	-	103	0.28

contd...

Table 3.4...contd..

	1968-91 (US \$ million)			%
	OCR	ADF	Total	
Hongkong	102	-	102	0.27
India	3,285	-	3,285	8.75
Indonesia	7,263	612	7,875	20.97
Kiribati	-	5	5	0.01
South Korea	2,320	4	2,323	6.19
Laos PDR	-	262	262	0.70
Malaysia	1,843	3	1,847	4.92
Maldives	-	25	25	0.07
Marshall Islands	-	7	7	0.02
Mongolia	-	30	30	0.08
Burma	7	524	531	1.41
Nepal	4	1,066	1,070	2.85
Pakistan	3,092	3,532	6,625	17.64
Papua New Guinea	175	263	438	1.17
Philippines	3,600	792	4,392	11.70
Singapore	178	3	181	0.48
Solomon Islands	-	43	43	0.11
Sri Lanka	14	1,291	1,305	3.47
Taiwan	100	-	100	0.27
Thailand	2,005	72	2,077	5.53
Tonga	-	29	29	0.08
Vanuatu	-	19	19	0.05
Vietnam	4	41	45	0.12
Western Samoa	-	79	79	0.21
Regional	35	-	35	0.09
<b>Total</b>	<b>25,143</b>	<b>12,409</b>	<b>37,553</b>	<b>100.00</b>

Source: Far Eastern Economic Review, 7 May 1992.

**Asian Development Fund (ADF)** -- Provides loans on concessional terms to those developing member countries with low per capita GNP and limited debt repayment capacity. The

same strict standards for loan approval and administration which apply to OCR loans are applied to ADF loans. These loans have a nominal annual service charge of 1%, and most are repayable over periods of 35 and 40 years, including a grace period of 10 years. Political as well as economic factors have influenced some of the Bank's major donors in deciding who gets access to ADF. This self-loan window is funded entirely by grants as distinct from the OCRs which are funded through ADB borrowings in international capital markets though fully backed by the Bank's own capital. Because of the concessional terms of its loans, the ADF cannot sustain itself on repayments and income and is almost completely reliant on replenishments to maintain and expand its lending. The replenishment negotiations for the ADF, at which the size of each replenishment and the formula for cost-sharing among donors are worked out, are held at four-year intervals. The negotiations have proved sensitive to donor policies and have become increasingly politicised, with some contributions being used directly as a means of achieving leverage over Bank policies, particularly by the US.

**Table 3.5: Contributions to the Asian Development Fund**

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1.	Japan	52.26
2.	USA	11.22
3.	Germany	7.28
4.	Canada	6.64
5.	Australia	4.57

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Source: ADB, 1992.

Technical Assistance Special Fund -- Is an important source of grant financing for the Bank's technical assistance operations. It is funded mainly by regularised replenishment contributions, voluntary contributions of member countries and allocations from OCR net income. Technical Assistance enables the Bank to help its developing member countries improve the capabilities to formulate, design, implement and operate development projects. During 1992, total technical assistance amounted to \$478 million for 278 projects.<sup>16</sup> Compared with the ADF, which unified the terms of the Bank's concessional lending, contributions to the TASF are made by donors on a bilateral basis, giving them considerable influence on the use to which their contribu-

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16. Asian Development Bank Publications, 1992.

tions are put.

**Table 3.6: Contributions to the ADB's Technical Assistance Special Fund**

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1.	Japan	55.94
2.	UK	6.59
3.	Canada	3.92
4.	Germany	3.89
5.	Norway	3.84

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In addition, the Bank administers the Japan Special Fund for technical assistance:

1990	-	\$155.8 million
1991	-	\$199.8 million
1992	-	\$270.0 million

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**Japan Special Fund** - Established in 1988, it is administered by the Bank. It seeks to help DMCs restructure their economies and broaden the scope for new investments by recycling funds, and to support DMC efforts in industrialisation, natural and human resources development and technology transfer. The JSF was established under an agreement between the Bank and the Government of Japan. As of December 1992, the total contribution of the Government of Japan to the JSF amounted to £34.19 billion (\$270.4 million).<sup>17</sup>

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17. Ibid.

**The capital structure** of the Bank is fundamental to its strength. As of December 1992, the authorised capital of the Bank was \$23,224 million (SDR 16,890 million) of which \$23,100 million (SDR 16,800 million) had been subscribed by members.<sup>18</sup> The subscribed capital is composed of paid-in and callable capital. The Bank's equity is made up of paid-in capital plus net accumulated earnings amounting to \$7,150 million (December 1992). The largest subscriptions to the capital stock were those of Japan and the United States which together with other developed countries provided about 61% of the total subscribed capital stock.

The Bank has been an active **borrower** in world capital markets since 1969. Its borrowing programme is broadly determined by the Bank's lending operations, its cash flow requirements, its liquidity policy, and its perception of current and future market conditions. In the early years of operations, the Bank's capital was the major source of funds for ordinary lending, but by 1982 borrowings accounted for a greater share than capital and reserves. During 1992 the

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18. Ibid.

Bank borrowed \$3.1 billion.

A basic Bank policy is to diversify its borrowing among available currencies and markets to avoid becoming too dependent on any one currency or market for funds. While most of the Banks borrowings have been in the form of public bond issues in the major capital markets, the Bank has also made direct placements on its securities with governments, central banks and other financial institutions and has borrowed directly from commercial sources.

**Table 3.7: Lender and a Borrower: ADB gross and outstanding borrowings as of 31 December 1991**  
(US \$ million)

	Gross borrowings (contracted)*			Outstanding borrowings		
	No.	Amount 2/	% of total	No.	Amount 2/	% of total
Japanese yen	37	6,060	39	19	3,540	38
Swiss franc	36	2,610	17	18	1,470	16
US dollar	30	2,770	18	12	2,030	21
Deutschemark	28	2,510	16	14	1,490	16
Others	25	1,490	10	11	900	9
Total	156	15,440	100	74	9,430	100

\*At the bank's exchange rates as of 31 December 1991.

Source: ADB.

Bank loans are mainly provided for projects in the fields of agriculture and agro-industry, energy, industry and non-fuel minerals; the financial sector; for transport and communications, social infrastructure (water supply and sanitation, urban development; education, health and population); and for multisector loans. The Bank of course responds to proposals in other sectors which conform with its purpose. These aspects have been discussed in greater detail in the following chapter.

Due to the close relationship between financial contribution and real influence in the ADB, its broad policies are largely determined by the policies and interests of its two major donors, Japan and the USA. Project formulation is more directly constrained by organisational factors. Following the Bank's founding, its management was concerned with establishing the institution's reputation and credit-rating on the international financial markets and laid strong emphasis on loans conforming to "sound banking principles". Once the Bank's financial base was established, management's emphasis shifted toward ensuring a steady expansion of loan commitments and disbursements



corresponding to the growth of the Bank's resources. This organisational concern with fund-channelling constrains the ADB to a conventional banking role and impedes the achievement of broader development objectives.

## CHAPTER IV

### THE ASIAN DEVELOPMENT BANK: PERFORMANCE RECORD

The Asian Development Bank has, in its near twenty eight-year-old history, had a remarkable track record, expanding in not only its membership and area of operations, but also in the range of activities undertaken. The kind of development challenges that the Bank has had to face over the past twenty-five years is amply illustrated by the following statements:

"We have had a long sleep. Asians have been all too ready to rest upon the laurels of a distinguished past; a past which will always signify beauty and cultural grace to the rest of the world. But the time has come to roll up our sleeves and prepare to cultivate this new era of self-discipline". -- Takeshi Watanabe, first ADB president, November 1966.<sup>1</sup>

"Asia-Pacific has become the fastest growing region in the world. At the same time, it is still home to large

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1. Annual Report, Asian Development Bank, 1991, p.11.

numbers of the poor, the malnourished and the disadvantaged. A major challenge today is to strike a balance between economic growth and poverty reduction while at the same time protecting the environment" -- Kimimasa Taramizu, last ADB President, March 1992.<sup>2</sup>

In 1966 when the ADB was established, the region's economies were much simpler and the challenges they faced more fundamental. Many countries were adjusting after political and economic dependence upon colonial rulers. Their economies were predominantly agricultural and trade was mainly limited to the export of primary commodities. Poverty and hunger had an upper hand. Although most of Asia's 1.7 billion lived in rural areas, their attempts at food self-sufficiency were hampered by high population growth rates, limited agricultural technology and natural calamities such as flood and drought.

Industrialisation was another major challenge. Export-led industry was viewed by many countries as the key to expanding their economic base, generating more employment

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2. Ibid, p.11

and earning foreign exchange. A third need was to provide basic infrastructure including transport, power, water supply and sanitation facilities -- which had to precede industrialisation. Another major need was for capital resources to finance such investments.

The development process now has become more complex with the growth of inter-regional and intra-regional trade, investment and cooperation. The Bank's developing member countries (DMCs) present a greater contrast than before. The newly industrialising economies (NIEs) -- Hong Kong, Republic of Korea, Singapore and Taipei, China -- have graduated to non-borrower status, several DMCs can be considered quasi-NIEs. Others remain extremely poor. Alongside the small Pacific island DMCs the ranks of the Bank's borrowers include the giant DMCs of People's Republic of China (PRC) and India. Table 1 in the Appendix shows a 24-year record of ADB lending in its DMCs.

Sectorally too, the challenges have been different. In agriculture, the "Green Revolution" kept the spectre of famine at bay, but the region is still a net importer of food and its food security situation remains fragile. Faced

by the growing diversity of its DMCs, and the challenges facing them, the Bank has over the past quarter century stretched its flexible mandate in new directions. Traditionally a lender to the public sector, for example, the Bank has widened its assistance to include direct assistance to the private sector. Moreover, its traditional focus on project lending has broadened to sector and programme lending -- oriented first to supporting the fuller utilisation of productive capacity and, more recently, to the medium-term development or adjustment of a particular sector.

#### **EVOLUTION OF BANK LENDING**

The Bank's mandate has been to provide principally the financing of specific projects, including those which form part of a national, sub-regional or regional programme. The composition of membership has changed and the new borrowing members have placed new and different demands on it. Also, the original DMCs have experienced major changes in their development needs as their economies have changed over time. The Bank's principal response has been to expand its range of services by widening the scope of lending activities and modalities to reflect the changing needs and imperatives of

its DMCs.

In the early years, as the Bank sought to establish itself as a sound and reputable institution, it gave priority to **public sector, government-guaranteed investment projects** which were designed to have maximum impact on economic growth. Lending was predominantly project-oriented and was provided for the creation of new productive capacity and infrastructure and for the rehabilitation and modernisation of existing facilities. There was a strong demand for project financing from DMCs to supplement assistance from the World Bank and bilateral sources. Table 2 (Appendix) highlights the Bank activities, 1966-92.

The demand for Bank assistance rose sharply in the 1970s as DMCs struggled to cope with the effects of two large increases in oil prices. The Bank responded by **financing projects to develop indigenous energy resources and to conserve energy**. It also continued to focus on projects to raise food production and expand infrastructure. The Bank's assistance to DMCs rose from \$1.8 billion during the five year period between 1970 and 1974 to \$4.7 billion

during 1975 and 1979.<sup>3</sup>

In the 1980s with the increasing acceptance of the need for direct action to reduce poverty, the Bank stepped up lending for **social infrastructure projects** to meet the basic needs of the poor. By the end of 1991, assistance to the social sectors amounted to \$5.5 billion, or 15 per cent of total Bank lending.

To meet the special needs of the small DMCs, the Bank introduced **multiproject loans** covering a small number of projects in one or more sectors. The first multiproject loan was made to Tonga in 1979. While project lending was achieving its development objectives, the Bank realised that this form of assistance did not address fully the wider and deeper problems facing some of the DMCs. To tackle these, the Bank initiated a number of new lending modalities. Nonetheless, government guaranteed project loans remained the principal focus of the Bank's lending operations, and in 1992 still accounted for about 66 per cent of the value of total loan approvals.

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3. All estimates and figures in this section have been taken from the ADB's Annual Reports starting 1968-1992.

In addition to loans for individual projects, the Bank introduced more flexible modalities for financing smaller projects. It **extended credit lines to development finance institutions (DFIs)** which permitted them to make loans to small-scale and medium-scale enterprises of a size too small to justify direct Bank involvement. In this way the Bank was able to assist borrowers who would otherwise be out of reach. The Bank made its first loan to a DFI, in Thailand, as early as 1968 and has since been associated with a growing network of DFIs in its developing member countries. In the first ten years, this type of lending amounted to \$590 million, while from 1980 to 1992 it exceeded \$3 billion.

The **quick-disbursing programme lending** was started in 1978 as part of the Bank's response to the adverse impact of the oil shocks on DMCs. The initial purpose of programme lending was to assist in situations where existing productive capacity was being underutilised because of a shortage of foreign exchange to pay for the import of necessary inputs. To preserve the Bank's traditional project financing role, programme lending was initially restructured to 7.5 per cent of total Bank lending.



Although all productive sectors are eligible, in practice almost all programme loans before 1987 were used to finance agricultural inputs such as fertilisers and pesticides.

In 1987 the Bank revised substantially its programme lending policies. The focus was shifted from financing inputs to supporting medium-term sector policies and adjustment programmes. In addition to being quick-disbursing, another salient feature of the programme loan facility is the trenching of loans in step with the progress in policy adjustments. By 1992, the Bank had approved 39 programme loans totalling nearly \$ 3 billion to 12 DMCs. The major recipients were Indonesia (\$600 million), Pakistan (\$564 million), Bangladesh (\$530 million) and Philippines (\$430 million).

In 1980 the Bank introduced **sector lending** under which a single loan is used to finance a cluster of subprojects within a specific sector or subsector. Sector-loans are a cost-effective means of resource transfer. By 1992 sector loans amounted to \$4.2 billion, or 11 per cent of total Bank lending.

In response to the policy of several DMCs to encourage the development of the private sector, the Bank began in 1983 to make **loans and direct equity investments to the private sector**. This was a marked departure from the previous policy of providing only government-guaranteed loans. The Bank's involvement in assisting the private sector, however, has been relatively modest in terms of the amounts involved. By 1992 the Bank provided direct assistance to 79 enterprises amounting to \$655 million. A large part of it has been directed towards 53 financial intermediaries in 10 countries. The record of Bank operations is shown in Table 3 (Appendix).

Taking the overall picture, annual Bank loan approvals increased from \$41.6 million in 1968 to over \$5 billion in 1992. Table 4.1 gives a broad picture of Bank lending, taking into account the major countries.

**Table 4.1: Cumulative Bank Lending,  
1968-1985 & 1986-1992**

Countries	1968-1985		1986-1992	
	Amount \$	%	Amount \$	%
Indonesia	3,454	19.8	5,632	22.3
Pakistan	2,679	15.4	4,356	17.3
Philippines	2,111	12.1	2,633	10.4
India			4,267	16.9
Korea	2,016	11.6		
Bangladesh	1,838	10.6	1,991	7.9
Thailand	1,677	9.6	824	3.3
China, PR			1,905	7.5
Malaysia	1,177	6.8	824	3.3
Sri Lanka	466	2.7	958	3.8
Myanmar	531	3.0		
Nepal	498	2.9	614	2.4

Source: Asian Development Bank, India-Resident Office.

Looking at the picture of the Bank's lending activities on the basis of different categories of financing, we get the following (Table 4.2) figures:

**Table 4.2: Lending Activities**  
(Cumulative, 1967-1992)

	Number	Amount (US \$ million)
Total Loans Approved	1,210	42,458.9
Ordinary Loans	641	28,894.6
Concessional Loans	569	13,564.3
Co-financing	351	13,997.3

Source: Asian Development Bank.

#### **PRIVATE SECTOR**

The private sector is regarded by the Bank as the main vehicle for the economic growth of its DMCs. Since the beginning of its operations, the Bank has assisted the private sector by financing infrastructure and providing technical assistance to governments to support independent private sector activity. Support for the sector was enhanced in 1983 when an equity investment facility was introduced. This facility allowed the Bank to make direct equity investments in private enterprises and financial institutions.

In 1985, the Bank's board decided that the ADB could lend to the private sector without government guarantee, and

this has generated considerable debate within the institution on the respective roles of public and private sectors in development.

**Table 4.3: Investment Expenditures in Selected Countries [Average Share of Total Investment (%)]**

	Private Sector			Public Sector		
	1975-80	1981-85	1986-90	1975-80	1981-85	1986-90
Hong Kong	83	81	87	17	19	13
Taiwan	50	53	58	50	47	42
Malaysia	82	51	59	38	49	41
Thailand	71	65	78	29	35	24
Bangladesh	45	55	21	55	45	79
Pakistan	33	45	47	67	55	53
Sri Lanka	69	82	76	31	18	24
China	16	33	37	84	67	63

Source: ADB.

*TH-6989*

The debate is of particular importance to Asia. From China, Taiwan, Hong Kong, the ASEAN countries and beyond into Indochina and the Indian subcontinent, the region faces an infrastructure expansion and renewal bill estimated at US \$2.5 billion over the next decade. The question is, who is going to finance such mega-spending -- the public or private

sector?<sup>4</sup>

The Bank has made a start, albeit tentative, on joint private/public sector involvement in infrastructure provision through its so-called BOT (build-operate-transfer) operations. These allow private enterprises to own and operate projects for an agreed period before transferring ownership to the public sector. In recent years, employing both direct and indirect ways of assisting private sector growth, the Bank has shifted towards developing the financial sector and capital markets of DMCs. By the end of 1991, the Bank had provided 111 loans totalling \$3.8 billion of 56 development finance institutions (DFIs) in 23 countries to benefit some 18,500 private enterprises.<sup>5</sup>

#### **COFINANCING**

The Bank's financial resources are rather limited compared to the needs of the DMCs and can only meet a fraction (around 5% annually) of their external financing re-

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4. The public vs. private sector debate is not just limited to Asian developing countries but is a major issue in almost all growth-oriented fast paced economies.

5. Annual Report, 1992, Asian Development Bank.

quirements. Cofinancing is intended to mobilise additional resources from official and private sources, to supplement and complement the Bank's resources in its lending operations. Cofinancing grew from \$85 million in 1970 to \$1.46 billion in 1991,<sup>6</sup> for 24 projects. Cumulatively speaking, the ADB has managed to attract US \$ 10.8 billion in cofinancing of various kinds to supplement its own lendings.<sup>7</sup> The biggest source of cofinancing to date has been governments or other multilateral sources. Commercial cofinancing has been less than 15% of the total. Table 4.4 gives a ten-year record of ADB cofinancing.

Table 4.4: With a Little Help from Friends

		US million						Amount of bank loan for co-financed projects	
Official source*		Export credits		Commercial sources		Total			
No. of projects	Amount	No. of projects	Amount	No. of projects	Amount	No. of projects	Amount		
1980	19	315	1	32	2	16	20	363	542
1981	19	481	3	59	2	87	23	627	827
1982	16	423	1	15	9	260	25	699	938

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6. ADB Annual Report, n.1, p.16.

7. Anthony Rowley, "The Search for Market Players", Far Eastern Economic Review, 7 May 1992.

Table 4.4...contd...

	US million								Amount of bank loan for co-financed projects
	Official source*		Export credits		Commercial sources		Total		
	No. of projects	Amount	No. of projects	Amount	No. of projects	Amount	No. of projects	Amount	
1983	13	128	-	-	5	180	18	309	793
1984	19	731	3	202	5	230	23	1,163	1,460
1985	21	335	3	222	2	83	23	640	1,193
1986	20	379	3	104	1	9	23	492	752
1987	22	286	3	151	4	61	27	498	1,209
1988	15	680	1	21	2	73	17	774	842
1989	22	995	1	166	6	112	26	1,273	1,648
1990	24	957	3	155	5	145	29	1,257	2,024

\* Including united loans from the Export-Import Bank of Japan.

Source: ADB.

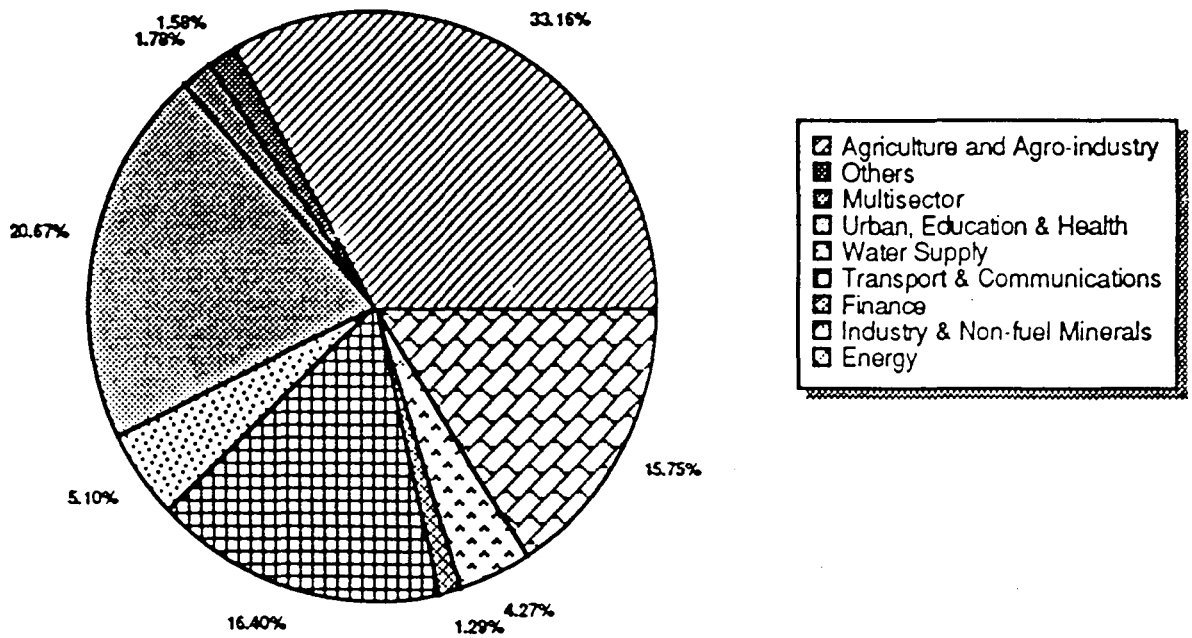
## TECHNICAL ASSISTANCE

An important element of the Bank's development role is the provision of technical assistance to its developing member countries. The principal function of such assistance is to facilitate the transfer of resources and technology to the DMCs by helping them identify, design and formulate, implement and operate development programmes and projects. Such activities are financed by the Bank through grants,



FIGURE 4.1

Technical Assistance by Sector: 1967-1992



loans or a combination of both, and the loans are financed from both ordinary capital resources (OCR) and the Asian Development Fund (ADF), together with bilateral and multi-lateral sources.

So far till 1992 a total of \$3.2 billion in technical assistance loans and grants have been provided for 2,891 projects, including regional activities.<sup>8</sup> Figure 4.1 provides pictorial detail, sectorwise.

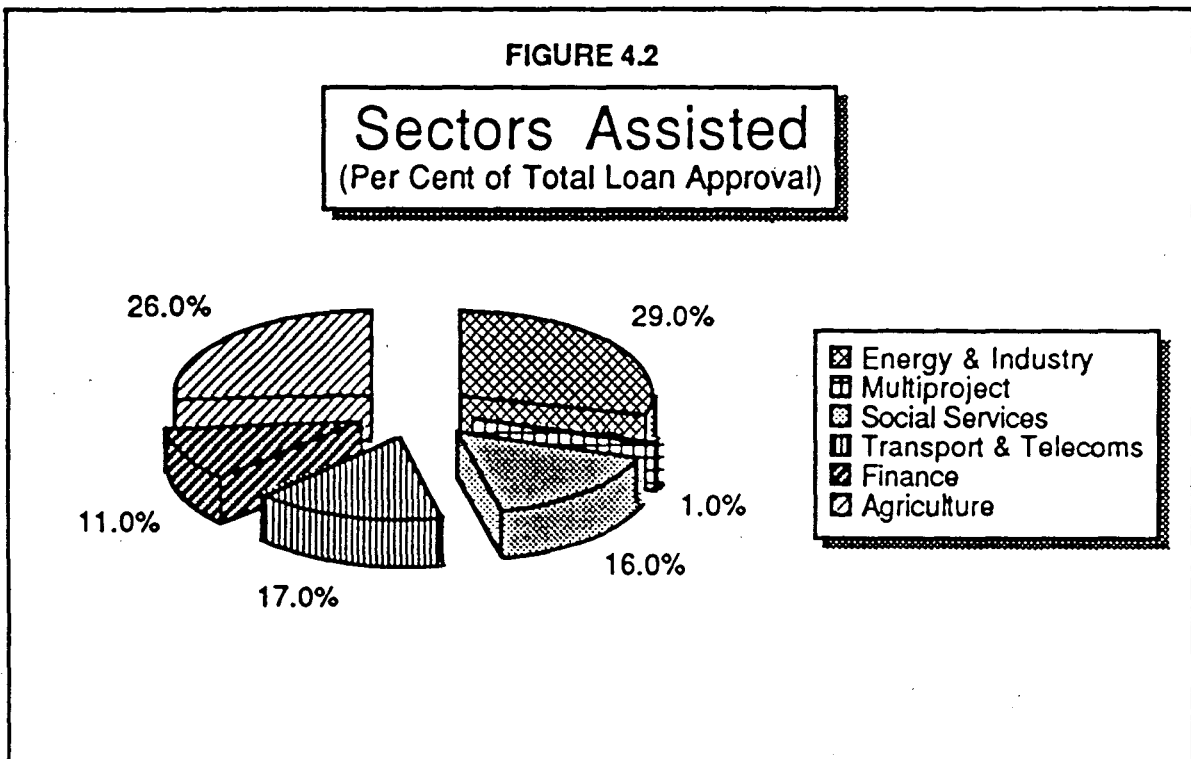
#### **SECTORS ASSISTED**

The Bank has made loans and provided technical assistance for agriculture and agro-industry projects: irrigation, fisheries, livestock, forestry, industrial crops, and fertilizer; energy projects: power and non-power; financial projects which provide credit to local development finance institutions; transport and communications projects; ports and shipping, railways, roads, telecommunications, and social infrastructure including poverty reduction, health, education, women in development, population planning, housing and urban facilities, etc.

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8. Asian Development Bank Publication, 1993.

A graphic detail of the sectorwise Bank assistance can be had from the following figure 4.2



The picture depicted by the figure as also the estimates shown in Table 4 (Appendix), are self-explanatory. The largest chunk of Bank loans have been directed at the agriculture sector; this is in keeping with the ADB's overall policy of addressing rural needs. And since most of the poor are to be found in the rural areas, the effort to reduce poverty has focussed on agriculture.

#### Agricultural and Rural Sector

Despite rapid urbanization, Asia is still predominantly rural. In most DMCs, between 70-90 per cent of the population live in the countryside. In the early years, Bank lending to agriculture averaged only 15 per cent of total lending. By the mid- 1970s, the share of agriculture had risen to 30 per cent and has remained around that level since then. Bank assistance to this sector has gone through several distinct phases. In the early years, the Bank often supported cash crop and agroprocessing activities.

From 1969 onwards, following the Bank's first Asian Agricultural Survey, projects became more production-oriented and were focussed largely on food production, especially

through rice-based irrigation projects. The focus on production continued in the late 1970s and 1980s with the additional emphasis on equity and social improvement. In 1976, the Bank's second Asian Agricultural Survey stressed the need for broader based rural investment lending to formulation of projects incorporating social components and a series of integrated rural development projects.

In line with the Bank's priorities for the 1990s, agriculture projects increasingly include components directly aimed at reducing poverty, enhancing the role of women and protecting the environment.

### Industry

The Bank's early lending to industry focussed on the import substitution efforts of the DMCs and supported relatively large projects in the public sector such as cement, petrochemicals and fertilizer plants. In later years, Bank operations concentrated on export production based on comparative advantages of the DMCs. In more recent years, Bank assistance has shifted toward enhancing the efficiency, autonomy and accountability of state-owned enterprises,

supporting technology assessment and management, industrial research and development, and promoting small-scale and medium-scale private enterprises. Increased emphasis is being placed on implementing policy reforms to liberalise trade and investment, environment and pricing policies.

The Bank has channelled resources directly through governments or through arrangements guaranteed by governments. However, in recent years, largely because of the inadequate performance of public sector enterprises, most DMCs are gradually relying more on the private sector; and in line with this trend, the Bank has encouraged DMCs to develop a policy framework that will lead to greater sector-oriented industrial growth.

### Energy

Bank lending of over \$ 90 billion for energy reflects the high priority assigned to this sector. 81 per cent of energy assistance has been for the electrical power sector. Support for non-electrical power has gone mainly to oil and gas development, natural gas transmission and distribution, and coal development. Early Bank operations were concentrated on improving the capacity and efficiency of electric

power generation and transmission and expanding natural gas transmission, but with sharp increases in oil prices in 1973 and 1979 to 1980, the Bank placed more emphasis on developing domestic resources. In the 1980s, the Bank emphasized system rehabilitation and modernisation, and also began to encourage increased participation of the private sector in energy development and power generation.

### Infrastructure

To support the rapid economic growth of the newly industrialising economies (NIEs), some of the Bank's early loans were provided to construct key highways in the Republic of Korea, Singapore and Taipei, China. In the 1970s the emphasis shifted to upgrading existing roads and facilities. Similarly, the Bank has been actively associated with the building of Asia's railways, especially in the recent years in the Peoples' Republic of China and India. Both the countries receive Bank support in alleviating transport bottlenecks. Bank activity has been stepped up in the field of telecommunications in both urban and rural areas.

## Social Infrastructure

Investment in education, health and population programmes, particularly those designed to benefit the lower-income groups, form part of the Bank's social infrastructure policy. The sector can be expanded to include urban development policies.

In education, Bank lending during the first decades focussed on developing education and training systems to produce manpower skills to meet the needs of strategic economic sectors. Priority was given to on-the-job training, vocational and technical education in secondary schools, education and training in science and technology and manpower training. In 1988, the Bank broadened its operational scope to include the entire sector, including primary, non-formal and environmental education.

In the health sector the first loan was approved in 1978. Its health objectives are concentrated on providing primary health care and community level health services, and its aims in the population subsector are to assist DMCs in keeping population growth and fertility rates at levels most appropriate to their specific conditions.



## Poverty Reduction

One of the region's ironies is that it sustains the highest growth rate in the world while at the same time being home to the largest number of very poor people. An estimated 700 million people live in dire poverty. Reducing poverty or rather fighting it is a major priority both for the Bank and the DMCs. The Bank has addressed the problem by emphasizing economic growth and the efficient use of resources, which in turn, contribute to the creation of jobs and raising of incomes.

In 1988, the Bank established an internal task force on poverty reduction which recommended three approaches to combat the problem. On the basis of this, the Bank has:

- a) given more attention to poverty issues in the formulation and implementation of traditional projects;
- b) increased the number of projects specifically designed to reduce poverty. This has been done through social sector investments and through income-generating projects. Examples include the Second Health and Family Planning Services Project in Bangladesh and Low

Income Housing Project in Sri Lanka;

c) used programme loans to improve the economic and social conditions of the poor by supporting sectoral policies specifically designed to benefit them.

### **Role of Women**

With its policy paper on The Role of Women in Development in 1985, the Bank's efforts to help women enhance their status and quality of life and to improve their share of education, employment and income opportunities have been stepped up. A conscious effort has been made to incorporate women in development (WID) issues in the formulation and implementation of projects.

### **The Environment**

Environmental protection is an integral part of sustainable development. An environment unit was set up in 1987 and lending for projects which have positive benefits on the environment has risen from less than \$ 10 million annually in the early 1980s to \$500 million in 1991. The environment unit was upgraded to a division in 1989 and to an office in 1990. Projects in agriculture, industry,

energy and infrastructure sectors, as well as those designed to reduce poverty, are planned and executed with environmental considerations.

#### **ADB AND INDIA**

India has had a peculiar relationship with the Asian Development Bank. It was one of the original members and a donor of the Bank, and even prior to the establishment, was actively involved in the negotiation process under the aegis of the Economic Commission for Asia and the Far East (ECAFE). It was agreed, in the course of discussions leading to the establishment of the Bank, that India's would be a non-borrowing membership status. However, this policy was revised after a 20-year period and in 1986, the Bank initiated a lending programme in the country. As of 1992, Bank lending to the country has been quite substantial, with aggregate lending reaching a US \$3.3 billion mark. Annual Bank lending to the country has also grown from US \$250 million in 1986 to approximate \$4,300 in 1992.<sup>9</sup>

Although the investment requirements in the country

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9. Former Bank President, Kimimasa Taramizu in Far Eastern Economic Review, 7 May 1992.

have always been large, the country has always had a high rate of domestic savings, and has therefore, been able to meet most of its investment needs from its own resources. That was one side of the story in the early part of the 1980s.

The other fact is that India is one of the largest debtors among developing countries, if ranked by outstanding external debt stock. Its ranking is however, much lower by debt service because a large proportion of its debt is concessional. India's external debt has not only grown rapidly in the past decade but has also been contracted on increasingly hard terms. The first part of the 1980s saw a large increase in India's public sector deficit. As inflows from its aid consortium decreased, the country turned to commercial sources of financing.

The strategy for balance of payments management includes substantial support in the form of external financial flows including external assistance and external borrowings including fast-disbursing assistance from official multilateral and bilateral sources. An essential element in India's strategy for managing its balance of

payments position was the mobilisation of external assistance from the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank plus bilateral donors.

The rationale for India tapping the ADB can then be traced to the above factors. The country had to look for financial assistance from all possible sources and the ADB was a good bet. The original idea that India should abstain from borrowing from the ADB so as to give access to poorer Asian nations to the Bank's limited resources, did not apply in the mid 1980s, considering its financial position.

Within the Bank, India's power matrix is as follows: it has the fourth largest voting power (5.718) following Japan, U.S.A., and China; and has held one of the three posts of Vice-Presidents (1985-88) at the Bank. Starting with 1986, the presence of the ADB on the Indian private sector scene is becoming noticeable. A \$12.6 million investment in the Indian stock markets through an international mutual fund, a separate country fund for India, a \$40 million mutual fund exclusively for the Indian leasing industry, investments in private sector steel and petrochemicals projects.

The Bank's operational strategy has focussed on industrialisation of the economy with emphasis on development of economic infrastructure. The Bank has been advancing loans to the country for projects like highways ( a \$12.7 million 1993 loan for a Bombay - Vadodara express way),<sup>10</sup> coal projects (Rs. 587.41 crores for Paradip),<sup>11</sup> telecommunication (impending \$200 million for expansion of rural telecom facilities),<sup>12</sup> etc. Table 4.5 gives a sectorwise position of ADB loans to India.

**Table 4.5: LOANS TO INDIA (1986-1992)**

Sector	Year	Loan Amount (in \$)	Percentage of total
<b>ENERGY</b>			
1. North Madras Thermal Power	1986	150.0	
2. Unchahar Thermal Power Extension	1988	160.0	
3. Rayalseema Thermal Power	1989	230.0	
4. Second North Madras Thermal	1990	200.0	
5. Power Efficiency (Sector)	1992	250.0	
6. Special Assistance	1991	150.0	

contd...

10. Times of India (Delhi), 4 December 1993.

11. Economic Times (Delhi), 14 Mar, 1994.

12. Times of India, 19 May 1994.

Table 4.5...contd...

Sector	Year	Loan Amount (in \$)	Percentage of total
7. Gandhar Field Development	1991	267.0	
8. Hydrocarbon Sector Program	1991	250.0	
9. Energy Conservation and Environmental Improvement	1992	147.0	
Sub Total		1,804.0	43.04
<b>INFRASTRUCTURE</b>			
1. Ports Development	1987	27.6	
2. Railways	1987	190.0	
3. Telecommunications	1988	135.0	
4. Road Improvement	1988	198.0	
5. Second Telecommunications	1989	118.0	
6. Second Ports	1990	129.0	
7. Second Roads	1990	250.0	
8. Second Railways	1991	225.0	
9. Coal Ports	1992	285.0	
Sub Total		1,617.6	38.59
<b>FINANCIAL SECTOR</b>			
1. ICICI	1986	100.0	
2. Small and Medium Scale Industries (IDBI)	1987	100.0	
3. IFCI	1989	150.0	
4. ICICI II	1990	120.0	
5. Financial Sector Program	1992	300.0	
Sub Total		770.0	18.37
Total		4,191.6	

Source: Asian Development Bank

Cumulative Bank lending to India is shown in Table 4.6

**Table 4.6 Cumulative Bank Lending to India  
(As of 31 December 1992)**

Sector	No. of Loans	Amount of Loans (\$ million)	%
Energy	11	1,853.80	43.5
Transport and Communications	9	1,617.60	37.9
Finance	5	770.00	18.0
Industry and Non-Fuel Minerals	3	25.90	0.6
Total	28	4,267.30	100.0

Source: ADB Annual Report, 1992.

All ADB loans to India have so far been channelised under its ordinary capital resources (OCR) head. The country has not yet got access to the ADF, the soft-loan window of the Bank, though in theory it is well qualified with its per-capita GDP being half of the US \$690 level (in 1985 prices) which the ADB uses as a benchmark.<sup>13</sup> On the other main eligibility criterion for ADF loans -- a borrower's foreign exchange availability and debt-repayment capacity -- India should have qualified. This remains a contentious

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13. Rowly, "Take a Number then Halve it", n.7, p.7.



issue as far as India is concerned as political and economic factors influence some of the major donors in deciding who gets access to ADF.

As regards policy initiatives in the country, ADB is now beginning to act in concert with the World Bank institutions in prescribing policy, though it leaves the larger macro issues to the latter. Greater privatisation, higher tariffs in uneconomically-run operations like transport and energy, cutting down of licensing and other regulations, a movement away from quantitative import restrictions, all form part of the ADB policy package.

The Bank has recently (March 1994) mooted a good governance plan, a highly controversial proposal seeking to link its general capital increase (GCI) to member countries' fulfilling about 20-odd conditionalities like good-governance and an enhanced level of monitoring of aid utilisation. India has been on the forefront of developing countries to oppose the imposition of conditionalities on ADB loans. This issue of linking conditionalities to an increase in capital stock of the ADB represents yet another facet of a tussle between developed and developing coun-

tries, not just within the portals of the Bank, but in a larger global context.

## **EVALUATION**

The ADB spends millions of dollars a year on post-evaluation projects. This appears to be money well spent because development banks have been targets of justified criticism for financing projects which do not really assist economic development. To date, the Bank's energy projects have scored the highest success rates. Industrial projects have also had a relatively high rate of success. At the other end of the scale, livestock and fishery projects have been judged relatively unsuccessful while agriculture and irrigation projects are somewhere in between. Success is judged by the Bank as being an economic rate of return of 10% or more.

According to a study conducted by the Bank, it appears that the quality of its loans has been declining. Figures show that the number of successful projects has risen from zero in 1983-86 to 11 in 1990, two in 1991 and five in 1992. The long-run success rate of all evaluated projects has also been falling, from 67% in 1988 to 60% in 1992.

By country, the ADB's projects in South Korea have been most successful, along with those in Thailand and Malaysia. Experience has been generally favourable too in Indonesia, Pakistan and Sri Lanka. In low-income countries such as Burma, Bhutan, Nepal and the South Pacific States, experience has been less than happy.

#### ADB vis-a-vis Other Development Institutions

The three regional financial institutions, discussed in the course of the study, namely the Asian Development Bank, the Inter-American Development Bank and the African Development Bank have the obvious in common -- in that they undertake development financing on a regional basis. Since a fairly detailed analysis of the first and a somewhat brief study of the latter has already been covered, a comparative chart would serve the purpose.

**Table 4.7: Development Banks Compared (1985 figures)**  
**US \$ billion**

Established	ADB	I <sub>A</sub> DB	A <sub>F</sub> DB	World Bank
Membership	1966	1959	1964	1945
	38 regional 15 non- regional	All region- al (Latin American) plus USA	Fully regional (African)	Global
Headquarters	Manila	Washington	Abidjan	Washington
Assets	9.0	14.3	2.4	76.0
Borrowings	5.5	9.3	1.1	50.2
Paid-in Capital	1.9	2.3	1.5	5.1
Callable Capital	14.0	24.4	4.4	53.7
Profitability	8.0	7.5	6.3	7.6
Liquidity	78.7	43.5	44.5	68.8
Loans outstanding	4.5	8.6	1.1	41.4
Loans approved	1.9	2.8	1.3	11.4

[Loans exclude ADF, IDA, special funds or other concessional lending.]

Source: Dick Wilson, A Bank for Half the World: The Story of the Asian Development Bank, 1966-86, (Manila: 1987, p.348.

The table shows that while the A<sub>F</sub>DB is somewhat lagging behind in terms of size as well as performance, the ADB and I<sub>A</sub>DB have incorporated the infrastructure necessary to finance two of the most dynamic regions of the world. While one cannot make a sweeping statement, it seems fairly evident that lack of developed country funds is responsible for the A<sub>F</sub>DB's state of affairs, while the presence of this very

factor has aided the other two institutions.

A feature of the Bank's evolution over twenty years is the growing maturity with which it handles its relations with the World Bank, which had been the basic model for the founders of the ADB. It is only one-eighth the size of the World Bank in resource terms yet it has been responsible for 13 per cent of the total net resource transfers to the Asian region over the fast few years.

As regards the overlap in the work of the ADB and the World Bank, it is so large that substantial cooperation has necessarily developed. When an ADB department submits a policy paper to its management, it will customarily begin by noting the relevant World Bank experience on the matter. Every year, after the annual meeting of the ADB, formal discussions are held between the two bodies ranging over the development problems and challenges of the Asian area which they both serve: "We have two days together on macro issues" is the policy.

Officials of the Banks also exchange documents, including confidential papers. They usually try to either agree on what they want Asian governments to do, or at least

be consistent with each other and not give conflicting signals.

With the other regional development banks, the ADB's relationship is cordial. Management exchange visits at the time of respective annual meetings and the custom has now been established that the three Banks confer at the time of the World Bank annual meeting in Washington over the special problems of the respective regions.

In a way, each institution complements the other and all three, the World Bank, in managing and financing the global economy.

## CONCLUSION: PROSPECTS

The study has dealt with the institutional patterns of three development financial institutions which were established at about the same <sup>time,</sup> within a span of a few years from one another, in different regions of the world with essentially the same objective. One conclusion that emerges is that it is difficult to generalise about them, even though the demand for the creation of these institutions is similar in each case. As each institution evolved, it necessarily adopted and reflected the needs, aspirations and peculiarities of its respective region.

At an ideological level, regional banks operate within the constraints arising from conflicts of interest between the developing countries which define the demand, and the developed countries, which provide the resources by which the demand may be met. This is true when we exclude the possibility of developed countries establishing development financial institutions exclusively within their ambit. There are two grounds on which developed countries might wish to support regional financial institutions. They might consider that the functions performed by the World Bank

could be more usefully performed at the regional level, on the assumption that at this level there will be a clearer perception of local needs and constraints; or they might consider that there are certain additional functions, apart from those performed by the World Bank, for which such institutions are particularly suited. These are, as it were, developed country rationale for the initial and continued support to regional development banks.

Both the developed and the developing world need to work in close conjunction to strengthen those financial institutions. It has been seen that regional banks have on the whole shied away from the one explicitly political function which they all have -- the promotion of regional integration. With the partial exception of the Inter-American Bank, they have tended to substitute for the concept of regional integration -- which involves the promotion of intra-regional trade, which in turn involves collective decisions about the regional distribution of the means of production -- the concept of regional 'communication', expressed in decisions which are politically much more bland, such as easily reached agreements on the construction of



roads, harbours, telecommunication links, etc. A fiercer concentration on the regional distribution of resources would enforce a sharper definition of the scope and limitations of the demand for institutions at the regional level.

At a more practical level, the 1990s promises to be a decade when the multilaterals gain or rather regain international respectability -- mediating the balance between public and private sectors in development and directing increased financial flows to countries who increasingly are turning back to them for support. The ADB is a microcosm of this wider situation but it also faces unique challenges. The Bank is at the centre of one of the world's most prospering regions, in which both East and West have major strategic and economic interests. This often means that the ADB is pulled in different directions by competing interests.

There is a consensus now among ADB staff and shareholder governments from developed and developing countries that the job of the Bank is to promote development that not only alleviate poverty but also lays the groundwork for market forces to operate within Asian economies. In the

1990s, ADB's role is assured; one can categorically say this taking into account the fact that infrastructure provision has traditionally been the province of the public sector in much of Asia. And in spite of its policy of promoting the private sector, the Bank's orientation essentially remains tilted towards the public sector. It is expected that in the coming years the Bank will play a more active catalyst role than before in mobilising external resources through cofinancing, both from official and commercial sources. According to the former Bank President, Kimimasa Taramizu, policy advice to DMCs will become the centrepiece of the Bank's activities.<sup>1</sup>

Looking at the Bank's long-term strategies one can conclude that poverty reduction, social infrastructure and conservation of the natural environment, are its top priority zones. The Bank's activities are to be directed towards maximising its impact on DMC's achievement of sustainable economic growth and corresponding reductions in poverty.

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1. Far Eastern Economic Review (Hong Kong), 7 May, 1992.

In promoting economic growth, the Bank's policy will be to emphasise the importance of increasing productivity which again depends on new investments, the efficiency with which new and existing capital are used and the incorporation of technological changes. More attention is to be paid to human resources development, an essential component of strategies to achieve growth. In any country, growth requires suitably skilled and capable manpower. In DMCs, where the availability and productivity of labour is the source of their comparative advantage, the health and skills of this key resource are critical. In reducing poverty, the route to improving the quality of life for the poor, especially women and disadvantaged groups, is primarily through access to employment and income-generating opportunities. Strategies are therefore needed to ensure that DMC policies and Bank project designs do not contain anti-labour biases and that growth generates employment opportunities. Target groups are to be provided with access to education and health services and to markets and credit so that their opportunities for employment and income generation are improved while at the same time their productivity and returns from activity are increased. Within its spectrum of

planned activities, the Bank is also establishing expertise to ensure that project selection and design take into account the impact on women. Related to this, there is also a consensus on the need to reduce rapid rates of population growth which might otherwise undermine the prospects for improving health and reducing poverty. The Bank aims to increase its involvement in family planning within the context of individual country circumstances.

To protect the environment, the ADB has identified six priorities: pollution control in the industry and power sectors; energy conservation and end-use efficiency; environmental improvement in urban areas; interlinked poverty reduction and environment improvement; tropical forest management and conservation of biological diversity; and agriculture and land-use policy.

The Bank attaches a great deal of importance to strengthening intra-regional trade, investment and cooperation. It has plans to expand its regional role from the current focus on research and training to include support for regional activities such as strengthening transport links or tackling common environmental problems.

World attention is likely to be directed towards Asia in the future (the trend has already begun) with many countries in the region achieving high growth rates. India and China along with many a South-east Asian economy, viz., Vietnam, Malaysia, Philippines, Cambodia not to speak of the Asian 'tigers' are the bright stars on the economic horizon. Their financial needs are ever expanding. This along with the enormous development challenges facing the other developing countries would demand a strong and active role of the development banks including the Asian Development Bank. But whether it is in development finance or the everyday, the poor may voice the demand, but the rich have the last word.

## APPENDIX

**Table 1: Lending-Distribution among Developing  
Member Countries, 1968-1992  
(Percentage of Value of Loans Approved in Period)**

DMCs	1968-1972		1973-1977		1978-1982	
	OCR	ADF	OCR	ADF	OCR	ADF
Afghanistan	0.0	2.6	0.0	7.1	0.0	0.9
Bangladesh	0.0	0.0	0.5	27.3	0.0	32.8
Bhutan	0.0	0.0	0.0	0.0	0.0	0.0
Cambodia	0.0	0.8	0.0	0.0	0.0	0.0
China, People's Rep. of	0.0	0.0	0.0	0.0	0.0	0.0
Cook Islands	0.0	0.0	0.0	0.0	0.0	0.1
Fiji	0.6	0.0	0.1	0.0	0.8	0.0
Hong Kong	2.9	0.0	1.7	0.0	0.8	0.0
India	0.0	0.0	0.0	0.0	0.0	0.0
Indonesia	0.0	34.6	17.2	4.5	28.4	2.1
Kiribati	0.0	0.0	0.0	0.2	0.0	0.0
Korea, Rep. of	26.2	1.8	20.9	0.0	18.4	0.0
Lao PDR	0.0	2.2	0.0	0.8	0.0	1.1
Malaysia	10.6	1.6	10.9	0.0	9.6	0.0
Maldives	0.0	0.0	0.0	0.0	0.0	0.0
Marshall Islands	0.0	0.0	0.0	0.0	0.0	0.0
Mongolia	0.0	0.0	0.0	0.0	0.0	0.0
Myanmar	0.0	0.0	0.3	13.6	0.0	11.4
Nepal	0.3	17.7	0.0	9.1	0.0	7.3
Pakistan	8.9	9.0	12.8	19.2	5.1	27.1
Papua New Guinea	0.0	7.1	0.8	2.2	0.8	1.9
Philippines	13.5	1.7	21.2	1.2	19.1	2.7
Singapore	12.1	1.5	1.4	0.0	1.1	0.0
Solomon Islands	0.0	0.0	0.0	1.0	0.0	0.2
Sri Lanka	1.7	11.1	0.0	8.4	0.0	8.6
Taipei, China	13.3	0.0	0.0	0.0	0.0	0.0
Thailand	9.9	0.0	11.9	0.8	16.0	2.7
Tonga	0.0	0.0	0.0	0.2	0.0	0.2
Vanuatu	0.0	0.0	0.0	0.0	0.0	0.0
Vietnam, Soc. Rep. of	0.0	5.6	0.2	3.0	0.0	0.0
Western Samoa	0.0	2.6	0.0	1.4	0.0	0.7
Regional	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Loan Appro- vals (\$ ml)</b>	<b>753.9</b>	<b>201.5</b>	<b>2326.9</b>	<b>964.9</b>	<b>4856.2</b>	<b>2351.1</b>

DMCs	1983-1987		1988-1992		1992	
	OCR	ADF	OCR	ADF	OCR	ADF
Afghanistan	0.0	0.0	0.0	0.0	0.0	0.0
Bangladesh	0.0	31.7	0.0	25.5	0.0	22.3
Bhutan	0.0	0.8	0.0	0.2	0.0	0.0
Cambodia	0.0	0.0	0.0	1.1	0.0	5.9
China, People's Rep. of	2.0	0.0	12.5	0.0	22.8	0.0
Cook Islands	0.0	0.1	0.0	0.1	0.0	0.2
Fiji	0.2	0.0	0.4	0.0	0.5	0.0
Hong Kong	0.0	0.0	0.0	0.0	0.0	0.0
India	9.5	0.0	25.5	0.0	24.8	0.0
Indonesia	33.7	3.7	30.8	5.7	29.2	4.7
Kiribati	0.0	0.0	0.0	0.0	0.0	0.0
Korea, Rep. of	9.2	0.0	0.8	0.0	0.0	0.0
Lao PDR	0.0	1.9	0.0	3.5	0.0	6.1
Malaysia	8.3	0.0	3.1	0.0	3.9	0.0
Maldives	0.0	0.2	0.0	0.2	0.0	0.0
Marshall Islands	0.0	0.0	0.0	0.1	0.0	0.0
Mongolia	0.0	0.0	0.0	0.5	0.0	0.3
Myanmar	0.0	3.4	0.0	0.0	0.0	0.0
Nepal	0.0	9.5	0.0	7.3	0.0	3.7
Pakistan	15.9	34.3	9.9	29.0	0.0	35.5
Papua New Guinea	1.3	1.6	0.6	2.4	1.3	2.6
Philippines	12.1	1.4	10.7	11.7	6.7	7.5
Singapore	0.0	0.0	0.0	0.0	0.0	0.0
Solomon Islands	0.0	0.6	0.0	0.1	0.0	0.0
Sri Lanka	0.0	9.8	0.0	11.7	0.0	10.4
Taipei, China	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	7.8	0.0	5.4	0.0	10.7	0.0
Tonga	0.0	0.1	0.0	0.3	0.0	0.0
Vanuatu	0.0	0.3	0.0	0.1	0.0	0.0
Vietnam, Soc. Rep. of	0.0	0.0	0.0	0.0	0.0	0.0
Western Samoa	0.0	0.4	0.0	0.6	0.0	0.7
Regional	0.0	0.0	0.2	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Loan Appro- vals (\$ ml)	6755.7	3617.3	14202.0	6429.4	3954.4	1155.0

Source: ADB Annual Report, 1992.



**Table 2: Highlights, 1966-1992**

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**Sources of Funds:**

- Authorized capital of the equivalent of \$23.2 billion as of 31 December 1992.
- About \$14.4 billion borrowed from international capital markets for ordinary capital lending.
- About \$15.3 billion from the Asian Development Fund for concessional lending to poorer DMCs, and about \$351.7 million in Technical Assistance Special Fund resources for financing technical assistance grants.

**Uses of Funds:**

- \$42.7 billion in total public and private sector operations involving 1,170 projects, including \$42.5 billion in loans and \$220.6 million in equity investments.
- \$716.9 million in private sector operations for 83 projects: \$174.8 million for equity investments and lines of equity, \$45.7 million for equity underwritings and \$496.3 million in loans. Complementary loans amounted to \$161.6 million.
- \$14 billion in co-financing, of which official sources contributed \$9.6 billion and commercial sources (including commercial banks, insurance companies and export credit sources), \$4.3 billion.

**Sectoral Activities:**

- Agriculture and Agro-Industry: 165 irrigation and rural development projects; 87 fisheries, livestock and forestry projects; 114 projects for industrial crops, agro-industry and support services; and eight fertilizer projects.
- Energy: 191 projects, including 161 power projects for the creation of 20,000 MW of generation capacity, of which nearly 83 per cent will be based on indigenous resources, and for about 108,000 km. of transmission-distribution circuits. Non-power energy projects provided for expanded production of natural gas and coal, rehabilitation of refineries and distribution networks for gas.
- Finance Sector: 118 credit lines totalling \$3,900 million to 59 financial intermediaries in 23 DMCs, which have been used so far to create 21,000 subloans to small and medium-scale enterprises, as well as eight programme loans amounting to \$1 billion.

- Transport and Communication: 46 projects in the ports and shipping sector for the construction, rehabilitation, modernization and expansion of port facilities; 89 projects for the rehabilitation, maintenance and construction of primary, secondary and feeder roads; eight railway projects to increase freight capacity by about 88 million tons; and 16 telecommunications projects to improve and extend services.
  
  - Social Infrastructure: 75 water supply and sanitation projects benefitting more than 94 million people; 63 education projects involving the establishment, as well as rehabilitation and expansion, of primary, secondary and tertiary level education and training institutions directly benefitting millions of students to date and about 175,000 teaching and administrative staff, and the provision of 305 non-project related scholarships for nationals of the Bank's DMCs and support for education research; 29 projects providing physical and institutional support for housing and/or a variety of urban infrastructure facilities covering components such as sites and services, slum upgrading, water supply, sewerage, drainage, solid waste management, flood control and urban transportation; and 24 health and population projects, providing physical and institutional support such as establishment or upgrading of rural health facilities and referral hospitals, health manpower development, production and essential drugs, improvement of storage and distribution of medical and family planning supplies, and repair and maintenance of equipment.
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Source: ADB Annual Report, 1992.

**Table 3: The Record**  
(amounts in \$ million)

	1966-1992a	1989	1990	1991	1992
<b>OPERATIONAL ACTIVITIES</b>					
TOTAL LENDING (Amount)	42,458.9b	3,623.6	3,972.2	4,780.7b	5,109.4
Number of Projects	1,103	62	57	75	65
OCR Loans (Amount)	28,894.6b	2,260.3	2,491.7	3,433.5b	3,954.4
Number of Loans	641b	34	27	43b	35
Disbursements	14,723.6	1,346.5	1,689.1	2,066.2	1,879.6
ADF Loans (Amount)	13,564.3	1,363.3	1,480.5	1,347.2	1,155.0
Number of Loans	569	35	36	33	32
Disbursements	7,490.7	888.4	1,062.6	1,037.4	887.5
A. Government & Government Guaranteed Loans (Amount)	41,962.6	3,527.9	3,893.3	4,593.9	5,059.4
Number of Projects	1,062	51	50	62	64
OCR Loans (Amount)	28,412.8	2,170.6	2,418.8	3,246.7	3,904.4
Number of Loans	606	25	22	30	34
Disbursements	14,466.2	1,312.0	1,607.3	1,993.9	1,819.9
ADF Loans (Amount)	13,549.8	1,357.3	1,474.5	1,347.2	1,155.0
Number of Loans	564	33	34	33	32
Disbursements	7,476.4	886.4	1,062.1	1,032.0	881.3
B. Private Sector Loans (Amount)	496.3	95.7	78.8	186.8	50.0
Number of Projects	41	11	7	13	1
OCR Loans (Amount)	481.8	89.7	72.8	186.8	50.0
Number of Loans	36	9	5	13	1
Disbursements	257.4	34.5	81.8	72.3	59.7
ADF Loans (Amount)	14.5	6.0	6.0	-	-
Number of Loans	5	2	2	-	-
Disbursements	14.3	2.0	0.5	5.5	6.3
EQUITY INVESTMENTS (Amount)	174.8b	56.4	28.7b	28.0	10.6
Number of Investments	60b	15	15b	7	4
EQUITY UNDERWRITING (Amount)	45.7	11.2	4.3	-	5.2
Number of Commitments	7	2	1	-	1
TECHNICAL ASSISTANCE (Amount)	3,254.6	239.2	301.6	369.5	477.7
Number of Projects	2,891	241	257	242	278
CO-FINANCING (Amount)	13,965.5	1,277.7	1,252.5	1,436.5	3,150.5
Number of Projects	360	26	27	23	22

## RESOURCES

(Amounts in \$ Million)

## Ordinary Capital Resources

Authorized Capital (at end of period)	23,224	22,111	23,938	24,160	23,224
Subscribed Capital (at end of period)	23,100	21,138	22,884	23,100	23,100
Borrowing (gross)	14,374	645	849	1,298	3,050
Outstanding Debt (at end of period)	10,961	6,872	8,215	9,434	10,961
Ordinary Reserve (at end of period)	3,705.5	2,314.9	2,713.1	3,219.1	3,705.5
Special Reserve (at end of period)	177.0	176.5	176.6	176.8	177.0
Gross Income	11,435.9	1,036.3	1,103.4	1,213.3	1,345.2
Net income after Appropriation of Commissions/Guarantee Fees to Special Reserve	4,358.3	435.3	508.5	517.8	534.3

## Special Funds Resources

## Asian Development Fund:

Total Resources (at end of period)	15,263.5	12,214.9	13,354.5	13,878.4	15,263.5
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## Technical Assistance Special Fund:

Total Resources (at end of period)	351.7	192.7	202.2	204.3	351.7
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## Japan Special Fund:

Contributions (at end of period) <sup>f</sup>	270.4	86.6	155.8	199.8	270.4
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a Cumulative totals may not add due to rounding.

b Amounts and numbers adjusted to exclude withdrawals and cancellations.

c Projects financed from both OCR and ADF are counted only once.

Cumulative number of projects excludes supplementary loans.

d Comprising technical assistance grants and loans funded by the Bank and other sources.

Regional technical assistance projects included.

e Adjusted to reflect changes in co-financing arrangements.

f Figures revised to include other resources and transfers to ADF.

Source: ADB Annual Report 1992.

Table 4: LOAN APPROVALS BY SECTOR: THREE-YEAR MOVING AVERAGES,  
1968-1970 - 1990-1992.

	Total Lending (\$ million)	Agriculture and Agro- Industry	Energy	Finance	Industry & Non-Fuel Minerals	Transport & Communi- cations	Social Infra- structure	Multi Sector & Others
	(Per Cent of Total Lending)							
Average during								
1968-1970	128.54	19.48	11.98	23.36	15.06	24.03	6.10	0.00
1969-1971	199.25	20.47	25.38	19.57	8.69	21.68	4.20	0.00
1970-1972	271.92	15.68	33.06	13.97	5.04	21.48	10.75	0.00
1971-1973	330.53	15.78	32.18	15.49	0.42	23.88	12.25	0.00
1972-1974	428.42	18.76	26.71	15.06	4.02	21.32	14.12	0.00
1973-1975	543.16	27.87	23.03	16.73	4.25	17.68	10.44	0.00
1974-1976	661.30	29.27	21.35	17.44	5.48	16.61	9.85	0.00
1975-1977	774.22	30.51	22.02	15.46	4.19	16.97	10.85	0.00
1976-1978	940.36	27.42	21.53	14.37	7.25	15.98	13.45	0.00
1977-1979	1,098.92	29.86	24.03	11.81	5.62	12.10	16.55	0.04
1978-1980	1,282.01	30.95	24.88	10.96	3.93	12.39	16.84	0.06
1979-1981	1,454.96	32.56	27.21	10.72	0.90	9.41	19.11	0.09
1980-1982	1,598.97	34.00	27.71	10.00	0.74	11.53	15.97	0.06
1981-1983	1,751.46	33.68	26.60	10.61	2.36	7.52	18.27	0.96
1982-1984	1,937.03	34.18	28.98	7.01	1.91	12.12	14.36	1.43
1983-1985	1,978.52	32.42	24.63	6.50	1.87	12.75	20.30	1.53
1984-1986	2,013.77	35.46	25.26	4.65	0.34	14.40	17.48	2.40
1985-1987	2,081.84	30.63	17.47	11.24	3.06	20.54	15.24	1.81
1986-1988	2,527.67	26.74	18.64	12.76	8.03	21.14	11.25	1.44
1987-1989	3,069.21	22.25	16.33	17.08	7.16	21.83	14.53	0.82
1988-1990	3,580.43	25.72	20.69	12.61	4.91	19.29	15.09	1.70
1989-1991	4,125.48	25.24	25.98	10.80	3.81	17.89	14.82	1.45
1990-1992	4,620.75	21.36	29.59	9.40	3.96	20.55	12.78	2.35
Cumulative (1968-1992)	42,458.90	26.35	24.71	11.35	4.04	17.44	14.69	1.41

Source: ADB Annual Report, 1992.

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