UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL

Distr.
GENERAL

E/CN.14/129/Add.1
17 January 1962

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA
Fourth session
Addis ababa, February - March 1962
Provisional agenda item 6

# POSSIBILITIES OF ESTABLISHING AN AFRICAN DEVELOPMENT BANK

(Prepared as a basis of discussion by a Panel of Experts)

Note. This document was also issued under the symbol E/CN.14/ESD/9.

62-02775

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# an

# AFRICAN DEVELOPMENT BANK

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INTRODUCTION

The basis for this study is the Resolution 27 (III) adopted by the Economic Commission for Africa at its plenary meeting on 16th February 1961. This resolution reads as follows:

The Economic Commission for Africa.

Considering the capital needs of the African States for the execution of their economic development programme by concerted action in the public and private sectors;

Believing that such action requires, in addition to bilateral or multilateral aid, the availability of long-term credits at low rates of interest,

Believing that an international bank with regional competence limited to Africa would meet these requirements:

Requests the Executive Secretary to undertake a thorough study of the possibilities of establishing an African Development Bank and to report to the Commission at its next session."

The question "What are the possibilities?" resolves itself into several aspects and preliminary questions which the panel may wish to consider. "What are the present instrumentalities and facilities for satisfying the "capital needs of the African states for the execution of their development programmes", as mentioned in the Resolution? What new instrumentalities have been recently created, or in what direction are existing instrumentalities evolving? Where are needs in respect of which a gap has been felt to exist? If such a gap exists, does it exist in relation to the terms on which capital is available, or in relation to specific development needs? The Working paper proposes in reply to each of these preliminary questions to supply some material which may serve the Panel in giving answers. The paper also

describes the main features of the new instrumentalities created or proposed of a regional character, particularly the Development Fund of the European Common Market, the Inter-American Development Bank, the proposed Arab Development Institution and the Colombo Plan.

After answering, tentatively at least these preliminary questions and examining the experience of other regions, a group of further questions poses itself. Given the possibility of establishing an African Development Bank, in the sense of seeing a need and constructive place for such an institution, questions arise concerning the possibilities of satisfying the need. "What are the possible sources for the finance that would be required?" "Into what channels could the finance provided by the new institution be directed?" "How can we arrange matters so that the finance provided is truly additional?" "What broad picture of an institution seems to emerge as we contemplate the answers to previous questions, and what are the possibilities that this broad picture will commend itself to those whom ADB would be supposed to serve?"

These are the questions, and in this order, which the Working Paper will take up, in the sense of providing reference material, indicating problems and alternative answers to these problems.

## Section I. PRESENT CAPITAL FLOWS AND INSTRUMENTALITIES

The flow of international economic assistance to Africa in the past few years has been considerable. The available data are set out in a document presented to the Commission at its third session which is available to the Panel as a background document.1/ The data show that according to the definitions used by the UN the share of Africa in international economic assistance had fallen from 30% around 1954 to 23% around 1958.2/ Since then, however, the share of Africa in IBRD lending has sharply increased,3/ the Development Fund of the European Economic Community has begun to operate,4/ U.K. assistance to African countries has increased,5/ the U.S. Special Programme for Tropical Africa has come into operation6/ and the U.S.S.R. has entered into the picture of aid to several African countries. It is likely, therefore, that the share of Africa in total international assistance is now as high or higher than it was in the period around 1954. Moreover, these are shares of a rising total volume of international assistance to under-developed countries.

During the decade 1950-59, the net flow of long-term capital (both private and official) and of official grants amounted to 3.7% of the national income for the Congo, 6.9% for Rhodesia and 3.9% for Morocco, but only to 0.8% for the Union of South Africa, nothing for the U.A.R. and an actual outflow (-0.4%) for Ghana.7/ It will be seen that these flows,

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1/ International Economic Assistance to Africa, Document E/CN.14/88. This document in turn is based on document E/3395 which describes the flow of international economic assistance to under-developed countries, but also contains specific reference to Africa.

2/ E/CN.14/88, p. 3, based on Document E/3395, p. 77.

3/ E/CN.14/88, pp.9-10.

4/ _ibid_, pp.17-18.

5/ _ibid_, p. 29.

6/ _ibid_, p. 35.

7/ _World Economic Survey 1960_, UN, New York, 1961 p.64.

while considerable in some cases, are very unequally distributed. The data also show that during the decade 1950-59, only three of these six African countries had an inflow of private long-term capital, amounting to 4.0% of the national income in Rhodesia, 2.1% in Morocco and 0.6% in the Union of South Africa; three African countries recorded a net outflow of private long-term capital: Ghana -0.7%, Congo (Leopoldville) -0.6% and the United Arab Republic -0.1%.1/

The difficulties of measuring the flow of external capital - great in any case - are particularly acute in the case of Africa. Particularly in the dependent territories, or countries which otherwise maintain close association with former metropolitan countries, financial flows relating to trade, banking and capital flows are so closely intermingled that net flows of long-term capital are not easily measured. Different countries and organizations use different definitions and arrive at different conclusions.

The only statement which it is safe to venture is that the flow of external capital to the various African states is very unequally distributed, and this is true both of public and private flows. It appears, for instance, that the French-speaking countries of Africa on the one hand, and such mineral export based economies as Rhodesia and the Congo (Leopoldville) - the latter until recently - have experienced, on a per capita basis, higher inflows than other African countries. The data also show that in some cases independence, or the approach to independence, has been accompanied by some outflow of private capital. Moreover, in certain cases independence has made unapplicable to the newly independent countries existing financial instrumentalities and arrangements for capital flows, even though in many cases alternative or compensatory arrangements were made.

Beyond this, it is not possible to state in any meaningful sense whether Africa has or has not in the past received its "fair share" of external capital. This question would require, not only calculations of per capita/

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1/ ibid

flows or flows in relation to national income or to export earnings or to domestic savings - such calculations could be made[1] - but it would also require analyses of absorptive capacity and availability of bankable projects and development plans in Africa, relatively to other areas. Such analyses could not, in our present state of knowledge, be made with any claim to precision.

Turning now from external capital to internal capital formation, there is evidence that a number of African countries have managed to achieve high rates of savings and total capital formation; in other African countries, the figures, while not absolutely high, are high in relation to the very low per capita incomes. The quantitative data are available only for selected African countries. The World Economic Survey 1960 shows that over the decade 1950-59, of 37 listed under-developed countries, Rhodesia and Nyasaland and the Congo (Leopoldville) were among the top five in respect of total supply of saving. Morocco and Tanganyika had achieved the average rate of total saving (about 16% to 17% of gross domestic product); the U.A.R. and Ghana with 12% and 11% of gross saving were below the average, but by no means at the bottom of the list.[2] It is particularly striking that all four African countries for which figures of net domestic saving during 1950-59 are given have savings ratios in relation to gross domestic product which are considerably above the average for the 25 under-developed countries listed: (Congo (Leopoldville) 16%, Rhodesia 14%, Union of South Africa 14%, Morocco 11% - median figure for 25 under-developed countries 8%).[3]

A substantial portion of the fixed capital formation, especially in sterling area countries, was financed from domestic savings or local sources (including local savings of foreign companies)[4]. In the sterling

1/ Some such calculations will be found in documents E/CN.14/88 and E/3395.

2/ World Economic Survey, p.61.

3/ _ibid_, p.62.

4/ _UN Economic Survey of Africa Since 1950_, Department of Economic and Social Affairs, New York, 1959, p. 188.

area countries 60% to 70% of the total capital formation originated from domestic sources, and in Ghana and Nigeria "domestic funds were more than adequate to finance capital expenditure in general and until 1954, there was continuous accumulation of external assets which was larger than the net inflow of capital from the outside world and must have been due to excess of domestic savings over domestic investment which was transferred abroad."1/ Public capital, including the funds of semi-public bodies such as marketing boards and public corporations, generally financed about half of the total domestic capital formation in most African countries.

All these African countries have, over the same decade, achieved rates of government saving which compare favourably with other under-developed countries (between 3% and 5% of gross domestic product); the same is true of the rate of private saving (ranging between 7% and 13% of gross domestic product).2/ Collection of government revenue ranged from 4% of gross domestic product to 21%. Such countries as Ghana and the Congo (Leopoldville) collected up to 5-6% of their gross domestic product in export duties alone; Nigeria, Cameroun and Kenya collected similar percentages of their gross domestic product in import duties alone.3/

While there is some evidence of considerable savings efforts, and of considerable rates of investment achieved, ECA data also show considerable disparities among African countries. An analysis of seven African countries showed rates of gross capital formation ranging from 6% of gross domestic product to 31%, gross domestic rates of saving ranging from 4% to 23% of gross domestic product, and rates of government saving as a source of financing investment ranging from 2% to 12%.4/ However, in some of those

1/ Ibid., p. 211.
2/ Ibid.
3/ Ibid. p. 44.
4/ See ECA paper "Economic Development in Africa: Aims and Possibilities", June 1961 submitted to the Regional International Economic Association Conference on Economic Development in Africa South of the Sahara, held in Addis Ababa, Table 11, p. 34. Data refer to the most recent available five-year average, usually around 1957.

african countries where high rates of capital formation and savings have been achieved, such national averages often may be misleading because they conceal a picture of structural imbalance as between African and non-African sectors, export and domestic sectors, or urban and rural sectors.[1]

A number of African countries, during the decade of the 1950's, have shown rates of growth of total domestic product ranging from 4% per annum to 6% per annum (or 2% to 4% per annum per capita). A well-known economist presenting these figures commented: "While the official estimates of gross domestic products, and indeed of population changes, are not firm enough to permit any absolutely confident judgment, and _a fortiori_ the unofficial guesses of orders of magnitude, it seems clear that African territories have been advancing in recent years at rates of growth fully comparable with those of much of the rest of the world. Indeed the impression left on an visitor to the modern enclaves of Africa is of the tremendous speed of expansion. The problem is in no small degree that of maintaining this impulse if the circumstances that permitted it are changed."[2] Again, however, the qualification must be made that the growth achieved often displayed the same symptoms of structural imbalance noted before. In the above quotation, the emphasis on the "modern enclaves" is significant.

The evidence may be summarized as indicating considerable yet uneven domestic efforts, considerable, yet equally uneven inflows of external capital - but in both respects inflows insufficient to produce rapid self-sustaining growth, except in a partial sense and in selected sectors it was creating serious structural imbalances. There would be no quarrel with the conclusion that while development possibilities have been demonstrated, outside certain pockets and areas of development actual progress has been unsatisfactory.

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1/ _ibid_, pp. 48-51.

2/ Professor E.A.G. Robinson of Cambridge University, England: "_Problems of African Economic Development_". Paper submitted to the Regional Conference on Economic Development in Africa South of the Sahara, July 17-29, 1961 at Addis Ababa.

## National Development Banks

The effort to mobilize domestic resources of African countries has also increasingly taken the form of establishing national development banks or corporations. Since a view on the possibilities of establishing an African Development Bank would have to take into account the existence of such national institutions and their relations with an African Development Bank, a brief account of these institutions and their problems follows.

Below is a list of development banks in the African region adapted and brought up to date from the data in William Diamond's book, Development Banks, and Shirley Boskey's Problems and Practices of Development Banks. This list represents only those institutions on which information is available and is, therefore, not complete:

### Development Banks in African Countries.

| Country | Bank | Ownership | Type of Operation | | |
|---|---|---|---|---|---|
| | | | Loan | Equity Investment | Direct Operation |
| Congo (Leopoldville) | Société de Crédit au Colonat et à l'Industrie | mixed | x | | |
| Ethiopia | Development Bank of Ethiopia | Government | x | x | |
| Ghana | Ghana Industrial Development Corporation | Government | x | x | x |
| Kenya | The Industrial Development Corporation | Government | x | x | |
| Liberia | The Agricultural and Industrial Credit Corporation | Government | x | | |

| Country | Bank | Ownership | Type of Operation: Loan | Equity Investment | Direct Operation |
|---|---|---|---|---|---|
| Morocco | Bureau d'études et de participation industrielles | Government | x | x | x |
| | Banque Nationale de Development Economique | Mixed | x | x | |
| Nigeria | Federal Loans Fund | Government | x | | |
| | Revolving Loans Fund | Government | x | | |
| | Investment Company of Nigeria | Mixed | x | | |
| | Regional Development Corporations | Government | x | x | x |
| Fed. of Rhodesia & Nyasaland | Industrial Promotion Corporation of Rhodesia and Nyasaland | Government | x | | |
| | Northern Rhodesia Industrial Development Corporation | Government | x | | |
| | Southern Rhodesia Industrial Development Board | Government | x | | |
| | Nyasaland Industrial Development and Loans Board | Government | x | | |
| Senegal | Banque Senegalese de Development | Government | x | x | |
| Southern Cameroons | The Southern Cameroons Development Agency | Government | x | | x |
| South Africa (Rep.) | Industrial Development Corporation | Mixed | x | x | |
| | Industrial Finance Corporation | Private | x | | |
| Tunisia | Société Nationale d'Investissement | Mixed | x | x | |
| Uganda | Uganda Development Corporation | Government | | x | x |
| | African Loans Fund | Government | x | | |
| UAR (Egypt) | Industrial Bank | Government | x | x | |

Industrial development organizations of a development bank nature have, since the last World War,been created in several African countries. These organizations are called by different names such as 'development corporation', 'investment company','development loans board or fund', but essentially they are all designed to aid industrial development and in this report they are all referred to as development banks. Invariably they have been established at the initiative of the government. A few are mixed ventures in the sense that the government participates in their ownership with the general public or with private business organizations. Of the development banks on which information was currently available, there is only one privately owned and that is the Industrial Finance Corporation of South Africa; five are mixed enterprises: Société de Credit au Colonat et à l'Industrie in Congo (Leopoldville), the Investment Company of Nigeria, the Industrial Development Corporation of South Africa, Société National d'Investissement of Tunisia and Banque Nationale de Development of Morocco.

The general responsibility with which these development banks are charged is the promotion of industrial development. Some carry out this function by advancing long term loans at low interest rates to suitable private enterprises. Others enter into direct operation of industries or participate with private enterprise through equity investment in share capital. There are cases where all of these operations are combined in one development bank. For example, the Regional Development Corporations in Nigeria, the Ghana Industrial Development Corporation and Bureau d'Etudes et de Participations Industrielles of Morocco, all, with varying degrees of emphasis, make loans, engage in direct operation of industries and participate with private enterprise through equity investment in share capital.

The extent to which any or all of the foregoing operations are undertaken depends largely on the particular circumstances of the countries concerned. In those countries without the requisite industrial skills

(including managerial) essential for efficient execution of industrial operations the tendency is to place greater emphasis on the direct operation of enterprises and on equity participation with well established foreign firms desirous of setting up a needed industry.

As mentioned earlier the development banks in Ghana and Nigeria operate a number of industrial projects in addition to participating with foreign private firms in the establishment of industrial enterprises. The Uganda Development Corporation runs fairly large scale industries through subsidiary companies and holds equity shares in a variety of private enterprises including banking. In marked contrast the Kenya Industrial Development Corporation acts principally as Government's industrial financing agency dealing mostly in loan financing, and where it makes equity investment the policy is to seek the liquidation of the equity within a suitable time. Similarly, the operations of the Industrial Promotion Corporation of Rhodesia and Nyasaland, the Southern Rhodesia Industrial Development Board and the Northern Rhodesia Industrial Development Corporation are mainly loan financing. Although the Industrial Development Corporation of South Africa can establish and run an industrial project if private enterprise 'is unable or unwilling to do so', its main purpose is to provide the maximum service to private industrial enterprises established on sound business lines. In Kenya, the Federation of Rhodesia and Nyasaland and South Africa, countries with permanently settled European populations having some industrial skills, the development banks rely heavily on private enterprise.

Judging from the experiences of some of the development banks in African countries, apart from limited size of market, the lack of industrial skills and of finance capital are the main bottlenecks in promoting industrial development. Lack of industrial skills has not always received the serious attention it deserves

because the severe limitations which it places on efficient application of development capital are not always immediately apparent. Where there is a paucity of industrial skills the loan financing of private enterprise is attended with many difficulties such as defaulting and misapplication simply because the loan recipients have insufficient, if any, knowledge of the industries they wish to operate. Frequently the reaction, as in the case of the Ghana Industrial Corporation is to doubt the usefulness of promoting industrial development through local private enterprise.1/

In view of the difficulties of mobilizing locally any significant proportion of capital required for development one of the primary concerns of the development banks in the African countries has become the encouragement of foreign investment in local industries. This objective has been pursued through financial participation with foreign firms and by providing investment facilities in the form of industrial estates, project preparation and investigation. Many of the banks, for example the Regional Development Corporations in Nigeria, the Ghana Industrial Development Corporation and the Uganda Industrial Development Corporation, have acquired equity interests in foreign firms or business organizations operating various industrial enterprises. One of the main functions of the Moroccan Bureau d'Etude et de Participations Industrielles is to investigate and study projects submitted to it by Government Departments or by private enterprises whether Moroccan or foreign. The Uganda Development Corporation maintains a technical division which conducts research and investigation into technical matters and industrial projects

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1/ In connexion with this problem W.A. Lewis in Report on Industrialisation and the Gold Coast, 1953, observed that the "error of the I.D.C. was not that it lent money, but that it lent money without supervision" and that "had the emphasis been more on managerial assistance and less on lending money the results would have been different". This suggests intensive practical managerial training and auxiliary services which most of the development banks in Africa are not equipped to undertake efficiently.

of potential value to the country. The importance of this type of study cannot be over-emphasized under the African conditions in which investment opportunities are scarce, and have to be created.1/

Unless, however, a country has a large and developed market in addition to other industrial facilities it cannot hope to attract much foreign investment in the industrial field. Most of the national markets in Africa are small both in extent and intensity. The populations of many African countries are small and sparse. Income per capita is low. The world demand for the principal primary commodities on which these countries depend for their money income is not steady and is, in many respects, deteriorating. Reserves accumulated by the national marketing boards in some of the countries (particularly the former British West African territories) upon which their national development banks depend heavily for their financial resources are being quickly depleted.

What a national development bank is able to do depends on the scope of its charter, the resources at its disposal and on the general industrial prospects of the country. National industrial development banks are not generally equipped to undertake and finance infrastructural projects such as transport, power and education upon which the success of the more economic and directly yielding projects depends. The early experiences of the Ethiopian Development Bank which the International Bank helped to finance showed that although it had funds to be invested in self-liquidating projects there were not many suitable and substantial projects in which to invest the funds. The I.B.R.D. Progress Report on the Bank attributed this state of affairs to lack of transportation, communications and education

1/ The shortage of investment opportunities in the African countries is generally attributed to the limited size of markets and under-development of infrastructures, but much can be done by careful study and selection of industrial projects.

facilities.[1] This type of overhead project sometimes cuts across national boundaries. Where this is the case the national governments and national industrial development corporations will not be in a position to undertake the projects effectively even if they have the necessary resources. In the African conditions where the current national boundaries often do not constitute viable economic units there are potentially many projects beyond the competence of the national development banks.

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1/ United Nations: Mobilization of Domestic Capital: Report and Documents of the Second Working Party of Experts, Bangkok, 1953, p. 184. The experiences of the Bank also point to the necessity for development banks in African countries to operate directly certain kind of projects.

Section II. EXPERIENCES OF PRESENT ORGANIZATIONS PROVIDING CAPITAL TO AFRICAN COUNTRIES OF POSSIBLE RELEVANCE FOR THE ESTABLISHMENT OF AN A.D.B.

In this section, some trends and recent experiences in the work of existing organizations operating in Africa are described since they draw attention to matters to be considered when examining the possibilities of the ADB.

It will be seen that much relevant experience exists which would have to be examined in more detail in any preparatory steps towards an ADB. Most of this experience derives from bilateral transactions which has been heavily preponderant in Africa.[1] Even the brief review of trends and experiences which follows indicates that organizations and governments have had to adjust their methods of operating in providing capital for African development to the specific African conditions and circumstances with which they have had to deal.[2]

The main body through which French capital used to be channeled to African countries, FIDES,[3] found it necessary from the very beginning to have a regional section in addition to a local section to deal with investment projects and other activities which benefit a number of territories at the same time (this applies to practically all research activities). In so far as any possibility for establishing ADB would be based on the need to finance regional projects a study of the experience of the regional section of FIDES compared with its

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1/ The Development Fund of the EEC is perhaps too recent to include in an analysis of experience and trends.

2/ A description of existing organizations and their work in Africa is available in background papers at the disposal of the panel.

3/ Fonds d'Investissement pour le Developpement Economique et Social des Territoires d'Outre-Mer.

local section would be of interest. FIDES also found it necessary and useful to give a good deal of its aid in the form of general budgetary support and in the form of support of current expenditure. The latter point is of interest in examining possibilities for a future ADB, because in Africa the need for strengthening current expenditures of a developmental nature is particularly marked, especially perhaps in education.[1] Since a strengthening of budgetary capacity is also particularly needed in African countries, the experience of FIDES as regards the relation between financing of investments as against budgetary and current expenditure support would also deserve consideration. FIDES also attempted to mix external and domestic capital by making its support conditional upon percentage contributions from local sources. However, the experience of FIDES was that the originally fixed shares of local contributions could not be met and had to be progressively reduced. Finally, FIDES has also assisted in the establishment of development banks in the individual territories. Since this also could become a possible function and mode of operation of ADB, FIDES experience may again be relevant.

The changes which have occured since the French speaking countries have become independent and which have led to the transformation of FIDES into FAC,[2] have been accompanied by trends which it would also be important to note in connexion with examining possibilities for an ADB. There is now great emphasis that requests for aid must be based on the initiative of the receiving countries, that they should be part of a general development programme, that the general financing picture of investment and current expenditure should be clarified and

1/ UNESCO Conference of African States on the Development of Education in Africa, held in Addis Ababa, 15-25 May 1961. This matter is also referred to in Section VII of this working paper.

2/ Fonds d'Aide et de Cooperation.

that all forms of aid, such as technical assistance, investment financing, and general development support and budgetary support should all be dealt with together in an integrated manner.

Further facts of interest relate to the terms on which assistance from FIDES was available. Loans to public authorities generally were of 10 to 20 years' duration at a rate of interest of about 2½%, while loans to private borrowers were for 7 to 10 years at a rate of interest of 5½%. Since any ADB could also be presumed to make loans, like FIDES, to public, semi-public, mixed and private entities, the question arises whether similar terms and similar differentiation of terms as between public and private borrowers would be appropriate. FIDES also was authorized to make loans and also to participate with risk-capital but direct participation in the capital of an enterprise was rare. Finally, it may be noted that FIDES also guaranteed loans raised by African territories on the French capital market or elsewhere. The guarantee of loans or under-writing of loans issued could also be contemplated when examining possible functions of an ADB.

The flow of external public capital from the United Kingdom to its associated territories in Africa also contains some features which it may be of interest to note:

(1) It was considered necessary to put the UK flow through the Colonial Development and Welfare Acts and also through the Colonial Development Corporation on a long-term basis. The latest provision for Colonial Development and Welfare grants was made for five years, covering the 1959-1964 period;

(2) About half of the expenditure under Colonial Development and Welfare Acts was for social surveys, education and health;

(3) On obtaining independence, former colonies are no longer entitled to CD & W assistance, except for unspent balances from previous allocations;

(4) The CD & W assistance is supplemented by the Colonial Development Corporation which operates on a commercial basis in association with colonial governments and private groups - the experience of such association would be relevant to a study of possibilities for an ADB.

(5) The UK also provides budgetary assistance although to a lesser extent than France;

(6) A recent development of special interest is that since 1959 loans are also made for development programmes in Commonwealth countries and not only for specific projects. The loans are from 7 to 20 years and the interest rate is that which the UK would itself have to pay for similar loans;

(7) It was also found necessary to unify all forms of technical assistance and financial aid to all countries by creating a separate Department of Overseas Co-operation which is in charge of a Minister, but without cabinet rank. Part of the budgets of the Foreign Office, Colonial Office and Commonwealth Relations Office are being transferred to this new department.

Belgian assistance to Africa (Congo and Ruanda-Urundi) very largely took the form of Belgian guarantee of loans, budgetary support and interest-free loans and advance without fixed repayment dates (in addition to straight grants). All these are instruments which would come into consideration as possibilities for an ADB.

In the United States, aid to under-developed countries is expected in the future to be more concentrated than previously, through consolidation in one single agency, and will place emphasis on long-term loans of 50 years at low or no rates of interest, with generous periods of grace but repayable in dollars. These trends would also have to be considered in determining the possible role of an ADB.

The activities of the U.S. Development Loan Fund include loans to be repaid in local currency, and the DLF also may finance local cost in addition to direct foreign exchange cost. This raises the question to what extent the ADB could utilize local currency accumulated in repayment of Development Loan Fund activities (or sales of surplus food under P.L. 480) in Africa, and on the other hand the question whether ADB could or should engage in lending for local currency repayment. It may be noted that within the framework of the Inter-American Development Bank it was decided to set up a Fund for Special Operations of $150 million for loans to be repaid partly or wholly in the borrowing country's own currency.[1/]

The U.S. Development Loan Fund also includes the interest rate differential previously noted in connexion with FIDES, namely, lower rates for over-head types of projects which normally are undertaken by governments, but higher rates for financing directly productive projects. Assistance is not all on a strict projects basis, since programmes can also be financed and the Fund can lend not only to governments and public or private enterprises, but also to financing institutions. This raises the question to what extent any ADB should operate through local or national financial institutions, specifically, national development banks, industrial development corporations, etc.

The United States Export-Import Bank also operates on the principle of differential terms, i.e., lower rates for loans to governments and governmental entities and higher rates to private borrowers.

German aid operates largely by government guarantees and refinancing of private investments. This may also become one of the functions of ADB. More recently however, a major programme of public assistance has been approved.

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1/ For a more detailed description of the I.A.D.B. see the next section.

A main feature of aid by the USSR has been that the interest rates charged are standardized at $2\frac{1}{2}\%$. While the duration of loans is often limited to 12 years, on the other hand the loans cover not only the cost of equipment supplied, but also the cost of prospecting and pre-investment expenditure related to the project.

As regards the International Bank, it is of interest to note that in the case of African countries the Bank has thought it useful not to adhere entirely to the specific project basis which underlies its usual operations. For instance, its 1960 loan to Kenya is not linked to any particular project but is intended to finance a government programme (The Swynnerton Plan) to develop African agriculture. The programme includes roads, agricultural extension services, education, water supply, cooperatives for farming, etc.. A similar loan was made to the Federation of Rhodesia and Nyasaland, also in 1960. The Bank has also given assistance to various African countries in the formulation of development policies and plans by sending survey missions, and African countries have availed themselves of the facilities for training senior officials in development planning techniques at the Bank's Economic Development Institute while junior officials have participated in the Bank's training programme. All these are activities which might be of interest to an ADB.

The International Development Association (I.D.A.) relates particularly to countries which have exhausted their capacity to serve external debts on commercial terms. Whether or not any ADB could engage in similar non-commercial transactions, would obviously depend on the nature of its capitalization. In particular, the availability of outside capital on non-commercial terms would seem to be essential. The non-commercial element in the IDA - to judge by its first transactions - lies not so much in local currency repayments but rather in the absence of an interest (except for a small administrative charge),

a long duration of the loan (50 years), a long period of grace (10 years) and a further period (another 10 years) during which repayment is at a reduced rate. The terms of IDA's financing are not specified in its charter, which prescribes only that they shall be flexible and shall bear less heavily on the balance of payments of under-developed countries than do conventional loans. Moreover, they include not only projects of the type the World Bank finances, such as road development, port facilities and irrigation works, but a much broader range, such as industrial estates, municipal improvements and technical training programmes. Finance available on such terms could obviously be most valuable to African countries and enable them to subdue considerations of short-run profitability and balance of payments effects and to concentrate instead on the long-range productivity and importance of the investment.

It is also of interest to note that in the course of the activities of the IBRD a need came to be felt to create financing facilities for private enterprises directly (the International Bank can only lend to governments or with the guarantees of governments). This has led to the establishment of the International Finance Corporation (IFC). It raises the question for any ADB to what extent it would directly lend to or invest in private enterprises (the Inter-American Development Bank has authority to do so).

Other points in the activities of IFC to be noted in connexion with examining possibilities for an ADB are: its investments are intended as a catalyst for moving larger sums from other sources; it has developed special forms of participation which combine some of the characteristics of both loans and equity; it has felt the need to hold shares through an amendment of its present statute which prevented it from doing so. This will also permit IFC to assist directly in the growth of capital markets in these countries by underwriting share

issues pending their sale to the public. This could be of special interest to African countries where the creation of national capital markets is of great importance. Its commitments in Africa have so far been extremely small. This fact points to a possible useful role which ADB might be able to play in enabling African countries to make better use of such existing facilities as the IFC.[1]

A study of the external flow of private investment to Africa in recent years draws attention to the great importance and volume of the retained earnings of previous investments. This raises the question whether possibly retained earnings from previous private foreign investments might help in the capitalization of an ADB, and then help to make its establishment possible. Mention may finally be made of the investment guarantee programmes as operated by the USA (ICA) and also by West Germany. The panel may wish to consider whether there is a possible useful role for any ADB which would also help to guarantee external investments and so lower their cost to African countries and/or increase their volume.

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[1] Nothing is said here about the Development Fund of the E.E.C. since this is described in more detail in the next section.

## Section III. MAIN RELEVANT FEATURES OF OTHER ORGANIZATIONS:
## Development Fund of E.E.C.; Arab Development Institution; Inter-American Development Bank; The Colombo Plan.

In this section, the main features of four institutions will be described, the existence of which for various reasons seems particularly relevant to the possibilities of establishing an ADB. The Development Fund of the European Economic Community is of particular importance because it is the one operative multilateral institution which for all practical purposes can be taken as being specialized to deal with African countries. The Arab Finance Institution for Economic Development has been selected because, although not operative, it is regional in the sense that the beneficiary countries are all members; moreover, its activities would include part of Africa. Thirdly, the Inter-American Development Bank is of particular interest because it is operative, it is of recent origin so that it reflects current views, it is truly regional and it embraces a whole continent such as ADB would do. Finally, while it is true that the Colombo Plan is not, strictly speaking, a financial institution includes countries outside the region (i.e. Asia), the manner in which member countries exchange assistance and the basis upon which such assistance is provided may be of special interest to an ADB.

The description of these institutions is limited to points of direct interest when considering broad possibilities for establishing an ADB.

### 1. The European Development Fund for Overseas Territories of the E.E.C.

This Fund - known from its French initials as FEDOM - is a fund and not a bank. All its financial transactions are direct and full

grants; no direct repayment of any kind is expected.[1] All contributions come from the six countries of the EEC; the receiving countries do not contribute. The contributions are in the first instance for the five-year period 1958-1962. The total contributions by each of the six contributors for the five-year period have been laid down in advance,[2] and also the raising yearly scale on which these contributions are to be made annually.[3] Although the contributions - amounting to $581.25 million in all - have been determined only for the five-year period up to the end of 1962, this is described as only a "first period"; it seems intended to continue the activities of FEDOM. The sharply rising scale of annual contributions may indicate both the expectation that FEDOM will take some time to develop its activities,[4] and also that its activities in the next period might in fact be on a larger scale. In addition to the contributions, year by year, by the six contributors, the allocation of FEDOM funds among the French-speaking territories, Dutch-associated territories, Belgian-associated territories and Italian-associated territories (as of that time) has also been laid down in advance.[5] Although FEDOM is not limited to Africa, in fact 90% of its expenditure is in African countries and territories.

1/ It is, however, stated that FEDOM would in future be divided into two sections, grants and easy loans (<u>West Africa</u>, July 1, 1961, p.707).

2/ France $200 million, Germany $200 million, Belgium $70 million, Netherlands $70 million, Italy $40 million and Luxemburg $1.25 million.

3/ 1958: 10%, 1959: 12.5%, 1960: 16.5%, 1961: 22.5%, 1962: 38.5%

4/ In fact, the activities of FEDOM were even slower to start than the scale laid down had anticipated: by the middle of 1960, less than half of the grants originally planned for 1958 and 1959 had in fact been authorized. After 3½ years, only $158 million had been allocated but the tempo of allocations was sharply rising.

5/ French-speaking $511.25 million, Dutch-associated $35 million, Belgian-associated $30 million, Italian-associated $5 million.

Only governments and public authorities can be the recipients of FEDOM grants. All grants can be made only on the initiative and in response to a concrete proposal by the recipient government. Preference is given to concrete proposals which are part of a development programme. All grants are for investment projects - current expenses do not qualify - but the cost of preparing projects can also be included.

The difficulties experienced by recipient governments in presenting concrete projects or programmes to FEDOM were stated to be the main factor in the original delays in making allocations. As a result, the procedures originally contemplated for FEDOM had to be simplified. Originally, the majority of the projects to be financed were intended to be social projects, but this allocation was drastically modified in the summer of 1959 when it was decided that 70% of the projects should be economic and only 30% social. These planned percentages were, however, stated to be not rigid but only indicative. The actual distribution of projects as between economic and social projects, as of 1 January 1961, was 53% economic and 34% social (13% being studies and research). Among the economic projects, the most important catagories were infra-structural projects which were more than twice as important as directly productive projects (mainly agriculture). Among social projects, health projects were most important (16% of total expenditures), followed by education and training (11%) and by municipal services (7%).

Examples of the most important projects actually financed by FEDOM, as of 1 January 1961, were as follows:

<u>Transport:</u> Roads (construction and improvement), feeder roads, bridges, port improvements, etc..

<u>Agriculture:</u> Anti-erosion works, tea, cocoa and rice culture, farm management, wells and reservoirs, stock breeding, cattle diseases.

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| Health: | Hospitals, dispensaries, medical centres, maternal and child health, nurses' training schools, anti-tuberculosis facilities, ambulances. |
| Education: | Primary schools, secondary schools, apprentice centres, rural training centres, schools of commerce, schools of administration. |
| Towns: | Town planning, highways departments, town sanitation. |

FEDOM is a truly multilateral fund, in the sense that the individual governments contributing to FEDOM abandon any national control over the utilization of their contributions which is entirely determined by FEDOM itself. FEDOM is also to be a truly additional programme, and it is emphasized that the bilateral programmes of France, Belgium, the Netherlands and Italy in their associated territories are not to be in any way curtailed because of the existence of FEDOM. FEDOM is meant to be a catalytic agency, i.e. its grants are meant to be applied at key points where they will have a chain effect on development. The grants given by FEDOM are not accompanied by any conditions.

2. Arab Financial Institution for Economic Development.

The project of an Arab Development Bank or Development Institution goes back to 1953 when the Conference of Arab Ministers of Finance and Economy passed the following Resolution:

> "The Conference appreciates the great need of the Arab countries for the establishment of an Arab Institution for economic development. It judges that the best way of establishing such an institution is for the General Secretariat of the League of Arab States to undertake a study of this project and the possibilities of executing it. In so doing the Secretariat should benefit from the technical and managerial experiences of the specialized banking institutions. It shall present the result of its study to the Economic Council of the League of Arab States in the immediate future".

After further discussions in the Economic Council of the League of Arab States a committee was formed to study and formulate a draft Agreement for such an Institution, but it was not until 1957 that such an Agreement was approved by the Council.

The project as approved in 1957 consists of a full Agreement in 45 articles. Inevitably, a number of these articles deal with legal formalities and details such as evaluation of currencies, details of organization and management, provisions for withdrawal or suspension of membership, suspension of the Institution, questions of legal personality, immunities and privileges, questions of interpretation and arbitration, etc.. In what follows, only the more substantive provisions concerning purposes, operations and financing and broad outlines of organization have been summarized in so far as they may throw light on the possibilities for an ADB. It will be appreciated also that an Arab Financial Institution would provide opportunities for cooperation between oil producing countries with financial surpluses on the one hand, and oil transiting countries on the other hand, which do not in the same way exist within Africa as a whole.

The Arab Financial Institution was to be established with a capital of $56 million (20 million Egyptian pounds). This capital was apportioned among the 8 participating countries, ranging from 50% for the U.A.R. down to 2% for Libya. The capital is to be enlarged as new members are added, or as contributions to the Institution are increased or as the economic needs to be satisfied develop. The original contributions are apportioned in proportion to the contribution of the various countries to the budget of the League of Arab States.

Only Arab countries are entitled to subscribe to the basic capital of the Institution and become members, and as such become entitled to subscribe shares of the capital stock. The Institution is also authorized to obtain funds by borrowing, through issuing securities

or obtaining credits from the IBRD or other financial organizations, and in certain circumstances also by loans from member countries. But the value of the securities issued by the Institution to obtain outside finance should not exceed at any given time twice the amount of the capital without a special authorization from the Board of Governors which in turn requires a 3/4 majority.

Of the original subscriptions to the share capital of the Institution, 75% is to be made available in gold or convertible currency. The shares of members are not transferable, except to the Institution itself, and may not be pledged or encumbered in any way.

The purposes of the Institution are defined as the economic development of member countries through financing productive projects undertaken by governments, organizations and individuals. Assistance to organizations and individuals is to be given only with the permission and upon guarantees by the government of the country where the project is located. Such assistance in financing productive projects could take the forms of loans, partial subscription of the capital of the project, guarantees of loans granted by others, participation in loans granted by others or the preparation of technical studies.

In addition to assistance in financing product projects, the Institution is also given the purpose of promoting the investment of privat capital, both foreign and local, and helping to create favourable conditions for this purpose.

The Institution is specifically authorized to make loans to development banks, whether industrial or agricultural, in the member countries. Specific reference is also made to operations on a regional level or on a large local scale. In the case of such operations, the Institution is authorized to participate in corporations undertaking such operations, but the total amount of such participations in regional or large scale projects is not to exceed at any given time 20% of

the total amount invested in loans. The regional or large scale operations concerned could relate either to construction or production. While the Institution is thus authorized, in certain cases, to participate in corporations, it may not undertake the management of any project in which it has invested funds.

In raising outside capital, the Institution is entitled to borrow funds and give the necessary guarantees, and also to resell the securities in which it has invested its funds, with its guarantee. It is also authorized to buy and sell securities on which it has issued guarantees or in which it has invested. In order to circulate and replenish its resources the Institution is encouraged to sell its securities whenever possible on satisfactory terms.

The Institution is also to establish a department for technical and economic research to serve in fulfilling its objectives and to assist member countries in surveys of their economies and in coordinating their development.

The Institution is to be additional to available private capital, and is not to undertake operations which in its view could be accomplished on reasonable terms through private capital. In the case of loans to national development institutions - governmental or non-governmental - the Institution may make loans in local currency if the necessary funds cannot be raised locally.

The terms on which the Institution finances projects should take into account the requirements of the project, the risks involved, and the terms usually available to individual investors undertaking similar financing operations.

Insofar as repayment of loans is concerned, the Institution shall endeavour so far as possible to recover its loans in the same currency in which they were made. The currency of repayment is to be specified

in each contract, but may be changed by mutual agreement. Other terms of loans made may also be changed upon request from the borrower and by mutual agreement (including also the approval of a guaranteeing government) provided that the Institution is satisfied with the validity of the request and that such a request does not harm the interests of the Institution or its members.

The Institution and its employees are prohibited from interfering with the political affairs of members. They shall not be influenced in their decisions by the political orientations of the members concerned. Only economic considerations shall be relevant to and the basis of all decisions, and these considerations shall be weighed impartially in order to achieve the purposes of the Institution.

The Agreement provides for an organizational structure, including a Board of Governors, a General Director (who is also the Chairman of the Executive Board), an Executive Board, a permanent Council of Advisors, Loan Committees, and the necessary staff. The Agreement lays down in some detail the functions of each of these units. The Executive Board is composed of four full-time members elected by the Board of Governors, and membership is limited to Arabs. No nationality is mentioned in the case of the General Director or the staff; but the General Director shall try insofar as possible to recruit personnel from the various member countries of the Institution, provided that there shall be no deviation from the principle of securing the efficiency and technical competence necessary for efficient operation. The Permanent Council of Advisors consists of at least three persons from different fields of specialization. The number may be increased if necessary; they attend the meetings of the Executive Board on invitation, but without vote. No nationality restriction is indicated in their case. The Loan Committees which prepare the necessary reports on request include an expert representing the member in whose territory the project is located and one or more members of the staff of the Institution.

3. <u>The Inter-American Development Bank (IADB)</u>

The IADB was established by an Agreement opened for signature in April 1959 to the member states of the Organization of American States. The Agreement was negotiated by a special committee of governmental experts representing all the American Republics, convoked by the Inter-American Economic and Social Council in response to resolutions and recommendations adopted by inter-American organizations. The Bank came into legal existance in December 1959, and held the first meeting of its Board of Governors in February 1960. The Agreement provides that the headquarters of the IADB is to be located in Washington.

As in the case of the Arab Financial Institution, only those more substantive parts of the IADB Agreement are described which are of interest in connexion with various possibilities regarding the establishment of an ADB.

The purpose of the IADB is described in very general and flexible terms: "The purpose of the Bank shall be to contribute to the acceleration of the process of economic development of the member countries, individually and collectively." The reference to regional projects and regional development, as indicated by the addition of "...and collectively" is reflected also in describing the functions of the IADB. Thus, the Bank is to cooperate with member countries to orient their development policy to a better utilization 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.1/ Policy statements also indicate that a high priority will be given to regional projects and operations which may contribute to economic integration. Thus, the President of the IADB declared at the first meeting of the Board of Governors: "Let us not forget that

1/ Article I, Section 2 iv.

we have not established an institution for isolated nations but rather for a Hemisphere as a strong and integrated unit."

The functions of the IADB are also described in very flexible terms. Its own capital can be utilized in loans either to governments or their sub-divisions, public entities or private entities. In the latter case, a government guarantee is not necessarily required but may be when circumstances warrant. The government concerned, however, has the right to object to a proposed financing by the IADB of a private enterprise in its territories.

The loans are principally for financing specific projects, "including those forming part of the national or regional development programme."[1] But the IADB can also make loans to development institutions or similar agencies of members so that these agencies may facilitate the financing of specific development projects whose individual financing requirements are not large enough to warrant the direct supervision of the IADB.

In addition to making loans, the IADB can also guarantee loans and participate in loans. Where loans are guaranteed by the IADB in whole or in part, these are loans by private investors, except in special cases.

The IADB is not authorized to participate in the risk capital of any assisted enterprise or entity.

In addition to the purposes already mentioned, the IADB is given the general task of promoting the investment of public and private capital for development purposes, and of encouraging private investment in projects, enterprises and activities contributing to

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1/ Article III, Section 7 (a) vi.

economic development.[1] The technical assistance functions of the IADB are emphasized and described not only among its general functions, but also in separate provisions of its Agreement.[2] These functions include preparation, financing and implementation of development plans and projects, study of priorities, formulation of specific project proposals and training of personnel specializing in the formulation and implementation of development plans and projects. The Bank is authorized during its first three years to use up to 3% of its resources for technical assistance. After that the expenses must come out of its net income.

The criterion of additionality is emphasized at various points. Thus the IADB is to "supplement private investment when private capital is not available on reasonable terms and conditions"; it is to cooperate so far as possible with national and international institutions and with private sources supplying investment capital; it can sell its investments with or without its guarantees, or participate with other sources of finance in making loans; its technical assistance activities are to be carried out in cooperation with other national or international institutions, either public or private, etc.. Generally, it will be the policy of the Bank to finance only projects in which the prospective borrower has made or plans to make a substantial investment.

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1/ The President of the IADB stated in this connexion in an address to the American Bankers' Association in September 1960, "The Inter-American Bank has much to do in attempting to locate and mobilize domestic financial resources within our countries. We are convinced that Latin America has financial potentialities which, given an atmosphere of greater political and social stability and sounder technical utilization, can be usefully employed in meeting its growing needs for investment capital."

2/ Article VI.

In the case of private borrowers, the Bank does not plan to finance more than 50% of the cost of a project in the absence of special justification to the contrary. In the case of loans to governments, consideration will be given to the contribution being made by the country to the total development effort.

One of the special features of the IADB is that it includes both a Bank engaging in normal banking operations, i.e. loans repayable in the currency in which they were made, and also a Fund for Special Operations engaging in operations not of a normal banking character, e.g. loans partly or wholly repayable in local currency, and of longer duration or otherwise easier terms. The Agreement establishes clearly a strict separation between these two aspects of the IADB, and the corresponding provisions may be quoted in full:

> "ARTICLE III, Section 3 - BASIC PRINCIPLE OF SEPARATION
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> (a) The ordinary capital resources of the Bank as defined in Article II, Section 5, shall at all times and in all respects be held, used, obligated, invested, or otherwise disposed of entirely separate from the resources of the Fund, as defined in Article IV, Section 3 (h).
>
> The financial statements of the Bank shall show the ordinary operations of the Bank and the operations of the Fund separately, and the Bank shall establish such other administrative rules as may be necessary to ensure the effective separation of the two types of operations.
>
> The ordinary capital resources of the Bank shall under no circumstances be charged with, or used to discharge, losses or liabilities arising out of operations for which the resources of the Fund were originally used or committed.
>
> (b) Expenses pertaining directly to ordinary operations shall be charged to the ordinary capital resources of the Bank. Expenses pertaining directly to special operations shall be charged to the resources of the Fund. Other expenses shall be charged as the Bank determines."

The relation between the normal banking activities of IADB and its Fund for Special Operations are similar to those between IBRD

and those of the IDA, except for some differences arising from the fact that the Fund for Special Operations of the IADB was created simultanuously with and by the same Agreement as the IADB, whereas the IDA was created subsequently to the IBRD. While there is strict separation of funds and liabilities, the staff is identical, the procedures are identical, and a Vice President of the IADB is in charge of the Fund. All member countries of the IADB must also participate in the Fund for Special Operations.

The paid-in share capital of the IADB is $400 million; its callable "guarantee" capital is $450 million; the Fund for Special Operations is $150 million; amounting to a total of $1,000 million.1/ The capital of the IADB is to be increased by another $500 million after October 1962. In addition, the IADB is authorized to raise additional resources by borrowing or sale of its securities, to accumulate a reserve fund from commissions (1%) charged on its loans, and to utilize resources arising from repayment and interest on loans.

Of the total capital, the U.S. contributes $150 million out of the total paid-in capital of $400 million (37½%); $200 million out of the $450 million of callable capital (44%); and $100 million out of $150 million for the Fund for Special Operations (67%).1/ The contributions of the other countries are laid down in the Agreement. They range from 13% of the paid-in capital for Argentina and Brazil down to ½% (about $2 million) for seven smaller countries (the five Central American countries, Haiti and Paraguay). In the case of the Fund for Special Operations, the percentage contributions range from about 7% each from Argentina and Brazil down to 0.3% ($400,000) for each of the seven smallest countries.

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1/ Since one country did not become a member, these figures and percentages should be slightly adjusted.

The paid-in capital has to be made available to the IADB half in gold or dollars, half in local currencies. The callable capital has to be made available, when required, in gold, dollars or the currency required by the IADB. The local currency part of the paid-in capital serves the purpose of financing goods or services from the member countries needed for projects assisted by the IADB in other member countries, or possibly to cover part of the local costs of projects assisted by the IADB. Generally, however, it will not be the Bank's policy to make loans in local currencies solely to cover local costs unless it is impossible for the borrower to furnish the financing itself and domestic sources are not available. Foreign exchange will normally not be made available by the IADB to cover local costs, except in cases when the project indirectly gives rise to an increase in the demand for foreign exchange by the assisted country. Even then only a reasonable portion of the local expenses is to be covered by the Bank in foreign exchange.

According to the basic information for potential loan applicants issued by the IADB, the Bank has no predisposition to favour certain categories of development projects, as such, over others. During its initial period of operations, it will be the policy of the IADB not to undertake, wholly on its own account, the financing of large-scale projects. The President of the IADB indicated a normal upper limit of $5 million for the loans of the IADB. This is done partly in order to give the limited resources of the IADB a broader impact in all the member countries, and partly also in order not to compete with existing institutions, such as the IBRD, which are available for the financing of large-scale projects. The IADB will, however, be prepared to consider participation with other financial institutions in such large-scale projects.

On the other hand, the IADB will not generally consider projects involving loans of less than $100,000. This does not, however, mean

that the financing of small-scale enterprises and smaller projects is given less priority. Quite on the contrary, as both the policy statements of its officers and also the activities of the IADB during its first year of operations show, the financing of smaller scale enterprises is in fact given high priority.[1] But such financing is to be carried out, not by direct loans from the IADB, but through the intermediary of national development organizations which in turn redistribute the loans from the IADB to smaller units. Most of the loans made by the Bank during its initial period of operations were in fact of this type.

The organization of the IADB includes a Board of Governors, a Board of Executive Directors, a President, an Executive Vice President, a Vice President in charge of the Fund for Special Operations, and the staff. The Board of Governors includes representatives of all the twenty members and meets annually as a rule. There are seven Executive Directors of whom one is appointed by the U.S. and the other six elected by the remaining members. The Executive Directors shall be persons

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1/ The following statement by the President of the IADB made at the first meeting of the Board of Governors on February 1960 may illustrate this point: "I attach great importance to the possibilities the Bank has, in carrying out its operations, of working through national organizations created for the purpose of providing financial aid for economic development, whether they be promotional organizations, development banks, agricultural or industrial banks, etc.. I believe that the experience of such organizations, and their knowledge of the economy and of the needs of their respective countries, may enable them to become suitable channels for the utilization of part of the Bank's resources. There are also important areas usually covered by small or medium-size private associations or enterprises where we may contribute with our resources most productively; in this respect, our assistance would probably be more useful and give maximum results in the fields of agriculture and animal husbandry, and in industrialization. For this purpose we must also look for support from local private financial organizations, particularly through investment institutions and stock markets. The aforementioned concepts enable us to foresee that the Inter-American Development Bank's cooperation with development organizations, with central and private banking systems, and with the financial markets of each country will naturally be very close."

of recognized competence and wide experience in economic and financial matters, and they serve for three years in the first instance. Voting in the Board of Executive Directors is basically by weighted voting, according to the capital subscribed by the members represented by each Executive Director, although this is somewhat modified in favour of the smaller countries. No nationality rules are laid down for the staff, although due regard shall be paid to the importance of recruiting the staff on as wide a geographical basis as possible. The paramount consideration in recruiting staff is to be the necessity of securing the highest standards of efficiency, competence and integrity. At the end of the first year of operations, the IADB had 87 professional employees; of its total staff (including secretarial and clerical) 63% were Latin Americans.

The Agreement of the IADB contains the same prohibitions of political interference, in identical language, already noted in the case of the Arab Financial Institution. Thus, the IADB, its officers and employees, shall not be influenced in their decisions by the political character of the member or members concerned, only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in achieving the purposes of the IADB.

The IADB has also become the primary mechanism for the disbursement of funds under the special "Alliance for Progress" programme of the U.S., placing emphasis on social needs and social development as well as economic development. For this purpose, a special trust fund has been set up, called the Social Progress Trust Fund, of which the IADB has been designated the Administrator. This trust fund is devoted particularly to land settlement and improved land use, low-income housing, community water supply and sanitation facilities and facilities for advanced education and training. The present resources available to the IADB as the Administrator of the Social Progress Trust

Fund amounts to $394 million which may be increased by mutual agreement. The results of the recent conference held at Punta del Este indicate that this amount may be increased in the future. A special Social Progress Trust Fund Agreement has been concluded between the government of the USA and the IADB to cover in detail the terms of administration of this trust fund by the IADB.

During the first year of operations (broadly covering the year 1960), the IADB approved ten loans to a total of $50.2 million, with prospects of doubling that amount in the following three months. Of these loans, $23.7 million came from the ordinary resources of the IADB and $26.5 million from the Fund for Special Operations. Over two-thirds of these loans were in dollars, but substantial allotments in local currencies were also made. The loans were made to eight countries, but there were immediate prospects that the IADB would extend its field of activity to practically all the Latin American countries. During the first year of operations, 520 loan requests or enquiries had been received of which 118 had been processed, and 24 were at advanced stages of analysis.[1] The average size of the first ten loans approved was $5 million, but the average size of the loans being processed or in advanced stages of study was around $2 - 2½ million.

No funds had yet been raised by the flotation of bonds in capital markets, and it was explained by the President of the IADB that this was a long and complex process requiring prior development of the prestige of the IADB and of knowledge of its way of operation. However, several of the first ten loans by the IADB were made with significant participation by private U.S. banks which assumed responsibility for the first instalments due, thus effectively lengthening the duration

[1] All these figures are exclusive of operations to be financed from the Social Progress Trust Fund.

of the IADB loans for the borrowers. In the first group of loans, the most under-developed areas of Latin America were given some preferential attention. Several of the loans were made to national development corporations and agencies. The comparatively large size of the initial loans by the IADB is largely explained by the priority given to overall loans granted to development agencies of the least developed countries, such as Bolivia, Paraguay, Haiti and North-Eastern Brazil. One loan among the first ten, in the amount of $4.7 million, was made to a private company for a cellulose plant. This loan was partly in dollars, partly in local currency. Two of the loans made were for the improvement of water supply and sewerage systems.

The 194 loan applications received by the IADB during 1960 - excluding mere enquiries - were classified as follows:

| | Percentage |
|---|---|
| Industry | 39 |
| Social development (housing, hospitals, health, schools, etc.) | 23 |
| Basic products (agriculture, forest, mines, livestock) | 16 |
| Miscellaneous (including regional and national development agencies) | 14 |
| Electric power | 5 |
| Transportation | 3 |
| Total | 100 |

75% of these applications were from the private sector and 25% from the public sector. Several IADB missions were requested by governments. In its first annual report, the IADB stated, "It is obvious that the preparation of loan projects and applications for presentation to international financing institutions presents difficulties for many prospective borrowers in Latin America. Many of the loan applications as received require additional information essential for preliminary evaluation by the Bank. It is thus apparent that one of the Bank's most important activities, especially during the first years of its operations, will be to provide technical assistance in the preparation of loan projects and applications.

Of sixteen loans made by the Inter-American Development Bank during the period 31 July to 10 August 1961, eleven loans were made from the IATP's own resources, and five from the Social Progress Trust Fund. Of the first category of eleven loans, eight were partly in the borrower's own currency, (always less than half the total loan). The eleven loans ranged in duration from five to twenty-five years, and the amount lent in dollars or other currencies external to the borrowers ranged from $165,000 to $5 million.

The five loans from the Social Progress Trust Fund were larger in size, ranging from $840,000 to $12 million; they were also longer in duration, ranging from twenty to thirty and a half years.

The purposes of these sixteen loans related to the financing of chemical plants, meat packing plants, wool production; houses, water supply and sewers; studies of hydro-electric projects, rural electrical pilot projects; irrigation and flood control and loans to small scale farmers and to small and medium scale industries.

4. The Colombo Plan.

The Colombo Plan is not a financial institution, but a system of economic co-operation through which capital and technical assistance is channelled to the countries of South and South-East Asia. The Plan was established in 1950 at the initiative of the British Commonwealth countries. Its members are comprised of two groups of countries, 1) the aid-giving countries: Australia, Canada, New Zealand, Japan, the United Kingdom and the United States and 2) the aid-receiving countries all in South and South-East Asia. The latter countries are India, Pakistan, Ceylon, Malaya, Singapore, British Borneo, Burma, Cambodia, Nepal, Indonesia, Laos, Vietnam, Thailand and the Philippines.

The principal organ of the Colombo Plan is the Consultative Committee[1] which was first set up in January 1950 following a meeting of the Commonwealth Foreign Ministers in Colombo.[2] At this meeting the idea of the Colombo Plan was conceived and subsequently formulated. All the countries co-operating in the Colombo Plan belong to the Consultative Committee, which, as its name signifies, is a consultative, and not an executive body. The original members were Australia, Canada, Ceylon, India, New Zealand, Pakistan and the United Kingdom (together with Malaya and British Borneo). Other countries of South and South-East Asia later became members by invitation, and the United States also joined.

The Consultative Committee was originally set up to assess the needs of South and South-East Asian countries as a whole, to assess the available resources, to direct world attention to the development problems of the area, and to devise a framework within which international economic co-operation could be fostered to assist these countries. Its first meeting was held in Sydney, Australia, in May 1950. At this meeting an agreement was reached to the effect that the Commonwealth countries in the region should prepare six year development programmes covering the period, 1st July 1961 to 1st July 1957. Non-Commonwealth countries of the region were also invited to prepare development programmes covering the same period as it was contemplated from the beginning that they should be invitedd to participate on equal terms in the Plan. The Consultative Committee in its meeting held in London in September 1950

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1/ Apart from the Council for Technical Co-operation and the Colombo Plan Bureau, this Committee is the only international organ within the Colombo Plan system.

2/ The Commonwealth Foreign Ministers met to exchange views on world problems and particularly on the needs of South and South-East Asia.

endorsed the development programme submitted by the Commonwealth countries and embodied them in the Committee's report entitled The Colombo Plan for Co-operative Economic Development in South and South-East Asia. This document formed the basis for capital and technical assistance under the Plan. On the approval and publication of the document the Commonwealth members outside South and South-East Asia announced their financial contributions towards the cost of implementing the development programmes.

The subsequent meetings of the Consultative Committee have been held annually in the capital cities of the various member countries. At these meetings the progress made under the Plan is reviewed and on the basis of country surveys provided by the countries themselves agreement is reached on future operations. At the Singapore meeting in October 1955 it was decided to extend the Colombo Plan from July 1957 to June 1961 and in the Djakarta meeting of November 1959 it was further extended to 1964.[1/] The International Bank for Reconstruction and Development was represented by an observer in the original Commonwealth Foreign Ministers' meeting in Colombo and also in subsequent meetings of the Consultative Committee. The Bank, in view of its important role in providing additional development finance to the region, maintains close liaison with the Committee. As the work of the Economic Commission for Asia and the Far East relates to the development problems of the region it usually sends observers to the meetings of the Consultative Committee. The various United Nations organizations working in the region also do likewise. The United Nations Special Fund was represented at the November 1960 meeting of the Committee held in Tokyo.

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1/ Ninth Annual Report of the Consultative Committee, Tokyo, Japan, November 1960. Further extension is subject to consideration of the Consultative Committee at 1964 meeting.

As there is no central fund from which aid could be made the Colombo Plan operates through bilateral assistance given mainly by the developed member countries outside South and South-East Asia to the member countries within the area. This generally takes the form of grants, loans and technical assistance. The Colombo Plan countries within the region co-operate closely and assist each other by providing technical assistance and limited amount of development capital, India, for example, contributed between 1951 and 1959 Rs 132.7 million to the costs of the development programmes of Nepal in capital and technical assistance. A unique feature of the Colombo Plan is that assistance, both capital and technical, is given in the context of national development programmes prepared and executed by the member countries. Progress under the Colombo Plan is assessed principally against the background of overall economic development achieved through the instrumentality of national development programmes.

The estimate of the assistance given by Australia, Canada, Japan, New Zealand, the United Kingdom and the United States from the inception of the Plan to the end of June 1960 is £2,857 million ($US 7936 million).[1] The contributions of these countries to the total assistance, capital and technical, are as follows: Australia A£35.16 million ($US 78 million), Canada C$281.7, Japan 7,248.4 million yen ($US 20 million), New Zealand £9.315 million ($US 26 million), United Kingdom £170.7 million ($US 474 million) (actual disbursement £146.9 million i.e. $US 404 million) and United States $7,378 million, including $1,538 million committed during 1960.

The capital grants, particularly from Australia and Canada, were financed through commodity transactions. In the case of Australia the

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1/ The Colombo Plan (Colombo Plan Day Special issue), the Colombo Plan Bureau, Colombo, 1961, pp. 7-8.

proceeds of sales of wheat and other commodities to the aid-receiving countries were, under special agreements, earmarked for specific development projects. The Canadian Government allocated a specific sum estimated at C$70 million as grant for the purchase of Canadian wheat and flour.

A great deal of emphasis is placed on technical assistance and co-operation through exchange of experts and technicians. The more developed Colombo Plan countries provide the countries in the plan area with not only needed experts, but also facilities for training local experts and technicians. As mentioned earlier, the member countries in South and South-East Asia exchange among themselves technical assistance and co-operate in dealing with any development problems of mutual interest.

## Section IV. Possible Sources of Finance For an ADB

Even if an ADB did not manage to mobilize any non-African capital, either directly or indirectly, could it conceivably still be justified because of the services which it might render to African countries in mobilizing their domestic resources, or in using their existing resources more effectively by better preparation of their projects or by better development of plans and policies? If this became the primary justification for the establishment of an ADB, this would be bound to have its repercussions on the nature of its operations, capitalization and management. It may be repeated that in this case also the question must be asked whether this function could not be carried out by an existing institution such as perhaps ECA or the IBRD. But the answer might still be in favour of the establishment of an ADB because of the desired financial specialization on the one hand (which ECA may be considered as not sufficiently satisfying) and the need for an institution located in Africa and specially familiar with African problems on the other hand (which the IBRD may be considered as not sufficiently satisfying).

The question may be examined whether an ADB would be necessary and useful in helping African countries to mobilize their own capital resources. Would African governments be willing to make subscriptions to the capital of an ADB in convertible currencies? If so, would such subscriptions come out of foreign exchange reserves which would otherwise be idle, or would they come out of resources which countries would need for their own development? Would an ADB spend these resources more effectively, or more rapidly, than the countries would themselves? How many African governments could afford to do so? How many would be willing? What would have to be the size of the paid-in capital from African members?[1]

[1] It may be recalled that the paid-in capital of the Arab Financial Institution is $56 million, and the paid-in capital by Latin American countries in the Inter-American Development Bank, payable in gold or dollars, amounts to $125 million.

Insofar as African governments contribute in local currency, how far will such contributions be useful in financing projects? To what extent can the goods and services necessary for the projects initiated by ADB be secured in Africa? To what extent should local currency contributions be used to finance local costs of projects? How could the use of local currency contributions by the ADB be harmonized with the financial stability and the domestic policies of African countries?

Are there chances of mobilizing resources from African countries by raising money locally other than by government subscriptions? The special cases of commercial banks insurance companies and the large trading and producing concerns have already been examined. Would African governments permit an ADB to raise money in their national capital markets if such possibilities were found to exist?

The next question to examine would be whether an ADB could directly, through its membership, attract additional money which otherwise would not be available, or alternatively whether there is a capital outflow from Africa which the ADB could intercept and utilize for the development of Africa instead. The first is the broad basis for the Inter-American Development Bank since the U.S. is part of the inter-American system and was prepared to help to capitalize the IADB to a considerable extent. The second would be the broad basis for the proposed Arab Financial Institution, since this could be largely capitalized from the oil revenues available in some of the Middle Eastern countries, sometimes far in excess of their absorptive capacity, much of which now leaves the region. But neither of these two situations exist in the same form in Africa. Africa does not contain a major capital exporting country. Broadly speaking, all African countries are in need of capital imports and other aid to economic development. There are no such major capital surplusses, e.g. from oil, as there are in the Middle East which would call for redistribution within Africa.

This need not, of course, exclude the possibility of attracting additional non-African capital to the capitalization of the ADB which would not otherwise be available. This could happen in five possible ways:

(a) By the participation of non-African sources in the paid-in capital of an ADB;

(b) By participation of non-African sources in the non-paid-in (callable or guaranteed) part of the capital of an ADB;

(c) By opening the capital markets of non-African countries to the issue of debentures and other securities by an ADB;

(d) By participation of non-African sources in the loans or other investments of an ADB; or

(e) By the contribution from non-African sources of special funds (funds-in-trust) for African development (e.g. a fund for promoting African training and education) which could be placed at the disposal and spent under the administration of an ADB (As the Inter-American Development Bank has become the "primary mechanism" for the disbursement of the additional funds made available by the U.S. under its "Alliance for Progress" programme[1]).

The above possibilities need not, of course, be exclusive of each other. To what extent do these theoretical possibilities actually exist?

If outside capital plays a major role in the capitalization of ADB in one of these various ways, would this have to be reflected in the organizational and management arrangements of an ADB? It cannot be taken for granted that non-African countries and other sources would make capital available without a proper - not necessarily propertionate - share in the management of the new institution.

Non-African participation in the capitalization of an ADB could conceivably come from non-African governments or from private capital markets outside Africa, or from European banks now operating in Africa, or from large European and other international concerns now operating in Africa.

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[1] See above, Section IV, 3.

As far as governments are concerned, various possibilities conceivably exist which may be worthy of enquiry. It may be noted that the share of Africa in aid given by the U.S. is so far very small (about 5%). May a willingness to increase this share be presumed, and may there be a willingness to channel part of this increase through a multilateral organization specialized in African development? A second relevant question is whether if the UK should enter the European Common Market, the European Development Fund of the EEC would apply to all British-associated as well as EEC-associated countries and territories in Africa? In this case may it be presumed that the European countries would not wish to discriminate so sharply against other non-associated African countries, and that they may be willing to apply the development fund to the whole of Africa? In that case, how would this affect an ADB? Would the use of an institution like an ADB suggest itself? Thirdly, there are a number of other developed countries with smaller aid programmes (e.g. Japan and smaller European countries) which may wish to participate in aid to African development, but their programme may be too small to make them wish to set up their own bilateral aid programmes. Would they make use of an ADB? Fourthly, some countries intending to give aid specifically to Africa may feel that they lack the necessary local contacts and knowledge of conditions. Would they make use of an ADB to supply these contacts and knowledge?

Non-African governments may at least make available their guarantee powers, if not direct capital, to an ADB. Would they be willing to do so? Aid-giving countries may bear in mind that on achieving independence some African countries have lost - or are going to lose - the shelter of the guarantee of the former metropolitan country which may be a condition in constitutional or practical terms, for access to the capital markets of the world. Naturally, the credit standing of a newly

independent country and its debt-servicing capacity in terms of hard currency must be a highly uncertain, if not an unknown factor. This may mean that in the absence of special arrangements the flow of capital to Africa is likely to fall rather than increase as African countries obtain independence.

As far as the mobilization of outside capital by flotation of debentures in capital markets is concerned, all experience shows that this could not be counted on in the first few years of the existence of an ADB, and would in any case depend on the commercial soundness of the banking operations, the subscription of capital or guarantees by governments (which probably would have to include non-African governments) and the reputation and connections established by an ADB in the course of its operations. Participation in loans made by an ADB and sales from its portfolio may be easier to arrange, and may result in some attraction of additional foreign capital to Africa on an ad hoc basis, but is diffioult to estimate in advance depending as it does on conditions in capital markets and the nature of the projects of an ADB.

To what extent could an ADB help African countries to make better use of existing institutions and sources of finance? This could happen if an ADB, in closer contact with African governments and their requirements than global or outside organizations, could adjust its rules and working methods to the special problems of often small and new countries with a less developed administrative machinery. Could an ADB simplify procedures and help African countries to cope with an often confusing multiplicity of sources of finance and ways of obtaining their assistance? Would it render the much-needed technical assistance in the financial and development banking fields as well as in the preparation of bankable projects more effectively than by other arrangements? Would outside countries and sources desirous of aiding Africa welcome an ADB

as a bridge to African countries? Or would they resent its interposition between themselves and African clients? Would an ADB, rather than simplifying procedures, add yet another source, create yet more complications and difficulties for the African countries?

It must not be overlooked that the question of whether or not an ADB would be able to attract additional outside finance cannot be considered in isolation from its functions and purposes. To the extent that an ADB would find a previously neglected field, such as, e.g. regional projects or the establishment of national development banks which existing institutions cannot undertake, for constitutional or practical reasons, the chances that additional outside resources can be mobilized are obviously increased. There is a mutual inter-dependence between sources of finance and other aspects of the ADB.

The possibility also exists of a more indirect mobilization of outside capital for African economic development through the establishment of an ADB. For instance, if the ADB leads to a more effective mobilization of domestic resources of African countries, to an encouragement of enterprise and to the creation of new investment opportunities, this could conceivably attract outside aid and investment to Africa even though such aid and investment need not be channelled through an ADB, but could go directly to projects initiated or made possible by an ADB. In this way, an ADB could conceivably act as a catalytic agency in attracting additional outside capital to Africa. Does there seem to be a role for such catalytic functions of an ADB?

The participation of commercial European banks and insurance companies operating in Africa is also a possibility which may be examined. Commercial banks in Africa have been quite naturally concerned about their liquidity and have not generally participated in the provision of long-term development capital. In any case, the provision of working capital, short-term accommodation and trading capital is also an

essential function. The need for such traditional services rendered by commercial banks will certainly increase as development proceeds. However, the provision of short-term finance and working capital is clearly more satisfactory in Africa than the provision of long-term capital, and an ADB would presumably be kept out of the field of providing short-term working capital. While commercial banks have been reluctant to enter the field of development banking themselves, they have in the past, outside Africa, often eagerly participated in the provision of long-term finance through intermediary institutions, provided that these operations were kept clearly separate from their normal banking business. In the case of a number of banks operating in Africa, there is the further consideration that except for smaller local working reserves, their reserves are often kept at the Head Offices outside Africa, e.g., London. This has often resulted in a drain of capital from Africa. The participation of the commercial banks in development financing could correspond to the historical pattern in Europe, North America and Japan. Countries under pressure to catch up with other countries have found it helpful to move from the strict principles of commercial banking in the direction of development banking. This was true at a later point even of England herself, the original citadel of strict principles of "commercial" banking.1/ In view of all these circumstances, would commercial banks agree to hold their reserves to a greater degree inside Africa? In this case, would investment in bonds issued by the ADB and other participation in its capitalization be acceptable to the commercial banks?

The large international concerns operating in Africa are already ploughing back a high proportion of their profits into African development. Judging from their own repeated statements these concerns are

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1/ William Diamond: "Development Banks", Economic Development Institute, I.B.R.D., John Hopkins University Press, Baltimore, 1957, p. 26.

fully aware that their prosperity is closely bound up with the general economic development, prosperity and stability of African countries, particularly, of course, those in which they operate. Would the investment of part of their funds in helping to capitalize institutions like an ADB be considered by them as an investment improving good will and understanding, thus helping to create a climate of co-operation? With such considerations in mind, is an approach to the larger international firms operating in Africa to assist in the capitalization of the Bank a possibility to be considered?

Would the ADB be able to attract additional funds-in-trust? Would it play a useful role as a better or more effective administrator of such funds-in-trust as may be made available?

Section V. SPECIFIC GAPS WHICH MIGHT BEST BE FILLED BY AN ADB

It may be taken as axiomatic that the Commission wants ADB to be established only if it satisfies a criterion or test of additionality. This is clearly indicated in the Resolution itself when it refers to the capital needs of African states for the execution of the economic development programmes, and when it declares that long-term credits at low interest are required in addition to bilateral or multilateral aid.

The possibilities of establishing the ADB, therefore should only be examined, insofar as it can be shown that the ADB would be required and able to make additional capital available to the African states. The need of African states for additional capital itself need not be examined here; it can be taken for granted since practically all of Africa is under-developed.

The ADB could conceivably provide additional capital for the economic development of Africa in several possible ways:

(a) The ADB could make additional internal capital available for African economic development by encouraging saving and capital formation; by mobilizing for African economic development reserves and other resources of companies, banks, insurance companies, etc. operating in Africa which might otherwise flow abroad or lie idle; by mobilizing for African economic development resources of African governments which might otherwise lie idle or be drained into non-productive government consumption.

(b) The ADB could increase external capital availabilities by attracting additional external capital to itself and channeling it into African economic development. The ADB could attract such additional external capital to itself, either

by subscriptions from outside Africa to the capital of the ADB; or by using its security or its gradually established reputation for raising external capital, e.g. by the sale of its bonds outside Africa. The ADB could also attract additional external capital to itself, if it were used as the mechanism for additional aid programmes for Africa which would otherwise not be undertaken.[1/]

(e) The ADB could enable African states to make more, or more effective, use of existing institutions and sources of finance. The criterion or test of additionality would also be justified if it could be assumed that an ADB would be a necessary and useful intermediary or channel between African states and existing sources of external finance.

The test of additionality must obviously be applied, and the ADB would have to be shown to be useful and necessary in fulfilling one or several of the above three functions. At the same time, the test of additionality need not be conceived in an entirely mechanical or quantitative sense. For instance, if the ADB could make available capital to African states on better terms than would otherwise be the case, this will promote their economic development. It will also mean that, with a given debt-servicing capacity, the African states will be able to absorb more capital, hence, the test of additionality is satisfied. Similarly, if the ADB causes more effective use to be made of existing capital by channeling it into better development projects and programmes than would otherwise be the case, the establishment of the ADB would be justified: better projects and programmes mean

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1/ The Inter-American Development Bank, for instance, is becoming the primary mechanism for the disbursement of funds provided by the U.S. government under its "Alliance for Progress" programme for Latin America.

accelerated development, greater resources in the future, and greater absorptive capacity for capital. Again, the test of additionality would be satisfied even if indirectly rather than directly.

The test of additionality will normally imply that African states should not refrain from membership in existing institutions or otherwise fail to take advantage of existing facilities, as the result of the establishment of an ADB. It also implies that the establishment of a new institution should not complicate the channels of access of African states to existing sources of finance. It would further imply that existing institutions and sources of finance would not curtail their activities in Africa, on the grounds of the establishment of the ADB. It implies that individual African governments should not in any way relax their own efforts because of the establishment of ADB.

It is with these pre-conditions in mind, that the Panel will wish to examine the possibilities of establishing the ADB. In other words, the examination will be related to the possibilities of establishing the ADB as a source of additional capital, and not as a substitute for existing sources. Its relation to existing sources of capital will therefore have to be constantly borne in mind and examined.

In regard to the criterion of additionality, a danger to be avoided is that several institutions all try to be "bankers of last resort", so that African countries are pushed around from one source to another in their quest for finance. The ADB clearly should not reject applications merely because it thinks money may be available elsewhere, but it should be its duty in such cases, to guide governments to such alternative sources and not lose interest in the application until it has seen to it that this marriage with another source has been consummated. In some cases, a marginal contribution by ADB may be necessary to bring about such a marriage, in other cases ADB would merely have to act as an active marriage broker. The criterion

of additionality should not mean that ADB would passively wait until all other sources have been approached and all other means exhausted. This would clearly create a danger of vicious circles.

The principle of additionality is not necessarily violated even if the resources of the ADB are not fully or rapidly utilized at first. The availability of finance, even in excess of immediate absorptive capacity, can in itself be a spur to the preparation of concrete projects and programmes and to the removal of other bottlenecks to development. Nothing inhibits these necessary preconditions to sound investment and development as much as the knowledge (or even fear) that the necessary investment capital would not be there anyway, and hence all the other hard work would be wasted. If the Bank can help to remove this inhibition, it will have justified its existence, even if the results in terms of claims on its own resources should be slow in showing in the balance sheets.

In the light of the foregoing discussion, the Panel may wish to approach the question of what specific functions an ADB could be asked to carry out which are not at present satisfactorily provided for, which will satisfy the tests of additionality, and for which additional sources of finance might conceivably be made available.

In the most obvious sense, it is clear that there is at present no multilateral financing institution covering the whole of Africa and specializing in African problems.

This fact alone, of course, is not a sufficient argument for establishing an ADB. Two preliminary questions will have to be answered: Why could not existing institutions be expected to give sufficient, or more, attention to African problems, e.g. by setting up or strengthening their African departments, or perhaps by setting up branches in Africa? Secondly, is the whole of Africa necessarily the right frame

for a development bank? Why not national development banks instead, perhaps with special arrangements for cooperation among them? Why not separate sub-regional development banks, e.g. for West Africa, East Africa, etc.?

Such questions will have to be raised and answered. Their discussion will bring out many problems. For instance, the chief arguments for a special new African institution may be that it could achieve a higher degree of identification of African countries with its work which might result in greater domestic efforts and easier administration, or that an African institution could have more specialized knowledge of African needs or more intimate contact with governments, etc.. The arguments against this might point out that an African institution may not show the same degree of objectivity and detachment in allocating funds or considering requests as a global or outside institution would. The discussion of such pros and cons could then lead to the discussion of arrangements by which the advantages of the regional bank such as identification and good relations could be preserved, while the disadvantages such as possible political pressures or lack of objectivity could be avoided.

Such discussions will not, however, be attempted in this working paper. This section will be confined to identifying 6 areas in which the work of ECA and other bodies has shown a felt need for strengthened financial support in Africa, and which are of a kind where an ADB might conceivably be a preferred instrument for action. These six areas are as follows:

(a) Regional projects.
(b) Promotion of intra-African trade.
(c) Needs of newly independent countries.
(d) Promotion of small-scale African industrial enterprise.
(e) Education and training.
(f) Development plans: long-range support.

The need for regional projects in Africa arises from the fact that individual African countries are often too small to be the right economic units for balanced economic development planning; moreover, the national boundaries are often in the nature of administrative lines rather than boundaries defining economic units. Examples of such regional projects for which a need has already been established are: health and locust control; higher education and technological research; transport projects; larger-scale industries; irrigation projects; hydro-electric projects; river valley development schemes; migratory labour links, etc.. Emphasis on regional projects will call for the formulation of general principles as to how the political and economic problems arising are to be tackled.

The promotion of intra-African trade is closely linked to the need for regional projects. It arises from the fact that in the past the trade of individual African countries has been developed almost entirely with an orientation away from inter-African trade. The need for intra-African trade also arises from the small size of African countries, from their diversity and possible complementarities and from the requirements of efficient large-scale production and specialization. This means that in many cases, even though the project itself might not be regional in nature, yet its markets or sources of supply should be regional, and the development of related projects of this kind would require regional understandings and regional cooperation. Here again, an ADB may suggest itself as a necessary focus for such a regional approach. The promotion of intra-African trade may also open up opportunities for the constructive use of local currency contributions.

The viability of newly independent countries may well become a special concern of an ADB: this also will call for further establishment of guide lines in this regard. Even the type of financing may

have to be specially adjusted. If the Bank were limited to hard loans, "the newly independent countries whose credit is not yet established and whose domestic resources are in some cases extremely limited, would be in a bad way".1/ The principle of special international assistance to new independent countries has been recognized by the U.N. and also by individual countries in their bilateral or multilateral arrangements.

The limited economic and budgetary capacities of African countries make it difficult for them to carry the burden of the recurrent as well as capital expenditures on essential developmental services. Among these, education and training have come to be recognized as being particularly fundamental for African countries. The Conference of African States on the Development of Education in Africa which met in Addis Ababa between 15-25 May 1961 drew up and approved a plan for educational development of the African countries as a whole for the next 20 years.2/ It was estimated that the cost of realizing this plan would amount to approximately $590 million in 1961, rising to $1,150 million in 1965, $1,880 million in 1970 and $2,600 million in 1980. On the assumption that the African countries would find it possible to devote to education percentages of their national incomes ranging

1/ Robert E. Asher: "Grants, Loans and Local Currencies". The Brookings Institution, 1961, p.99.

2/ Conference of African States on the Development of Education in Africa, Addis Ababa, 15-25 May 1961, Final Report. United Nations Economic Commission for Africa and United Nations Educational, Scientific and Cultural Organization, UNESCO/ED/181. Also Outline of a Plan for African Educational Development, UNESCO/ED/180.

from 3% to 4% between 1961 and 1965, increasing to 6% by 1980, it was calculated that they would be able to find unassisted $450 million to $700 million during the first five years of the projected plan, reaching $870 million in 1970 and $2,200 million in 1980. This would leave a gap to be filled from external sources which was estimated to amount to about $1,310 million for the first five years of the Plan (an average of $262 million a year), rising to $1,010 million in 1970 and decreasing to $400 million in 1980. An educational programme of the magnitude envisaged in this plan could not possibly be financed entirely from the recurrent revenues of the African governments and there would undoubtedly be a recourse to loan financing. This appears to be an area in which the resources of an ADB could conceivably be advantageous.

The promotion of small-scale African industrial enterprise, for many reasons, also plays a fundamental role in African economic development.[1] This also raises a number of special problems, and an institution like an ADB could conceivably be a good solution. In this area of operations, the need would particularly strongly arise to work with and through national institutions. The establishment of trading estates in selected locations throughout Africa which would become focal points of African enterprise and industrialization might conceivably be an important part of these activities.

Finally, it may be noted that many African countries are still in an extreme state of under-development. The formulation of long-range development plans for them is both particularly important and also particularly difficult. Much of the developmental assistance must

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1/ H.W. Singer, "Problems of Small-Scale Industry in African Economic Development", paper presented to Regional Conference of the International Economic Association, Addis Ababa, June 1961.

be of a particularly long-term nature, be given on very flexible terms and may take a considerable time to show results. These special conditions may also conceivably make it seem desirable to create an institution which can offer such long-range support in a way particularly adjusted to African conditions.

While the above six areas, as tentatively defined, seem to open up possibilities for an ADB, it must also be recognized that the arrangements to deal with each of them, are by no means identical or even similar. This brings home the point that the provisions one would make for the financing and mode of operations of an ADB would have to depend on which of the various purposes or gaps which it might fill is emphasized.

## Section VI. SUMMARY

### Questions Arising out of the Working Paper on the Possibility of Establishing an African Development Bank

Prepared for the Panel of Experts

Section I.

1. In which ways is the present flow of capital to Africa insufficient or unsatisfactory?

2. Need flows of capital to newly independent countries be improved?

3. Can African countries mobilize their internal resources more efficiently, and could an ADB be of value in this direction?

4. Are there symptoms of structural imbalance in African economic growth, and if so, how could they be remedied?

5. Are national development banks sufficient? In which ways could an ADB strengthen national development banks?

6. What can we learn from the experience of national development banks for an ADB?

Section II.

1. What can we learn from the experience of existing financing organizations?

2. Is there need for:

   (a) budgeting support

   (b) support of current expenditures?

   (c) support for general development plans?

   (d) support for local cost of development projects?

   (e) support for social sectors and aspects of development?

   (f) technical assistance of various kinds?

3. On what terms is assistance needed?

4. How should the initiative and self-effort of receiving countries be safeguarded?

5. Is there a place for local currency repayments?

6. Should an ADB also assist private entities? On the same terms as Governments?

7. Have African countries exhausted their debt-servicing capacity?

8. How could an ADB assist in the promotion of money and capital markets in African countries?

9. Is there any useful role for an ADB in investment guarantees?

Section III.

1. What relevant conclusions for an ADB can be drawn from the experience of

   (a) the Development Fund of the EEC?
   (b) the Arab Financial Institution for Economic Development?
   (c) the Inter-American Development Bank?
   (d) the Colombo Plan?

Section IV.

1. To what extent and in what forms could non-African capital be attracted to an ADB:

   (a) by participation in the paid-in capital?
   (b) by participation in callable (guarantee) capital?
   (c) by issue of debentures or other securities?
   (d) by participation in loans?
   (e) by funds-in-trust?

2. Could outside capital be attracted from:

   (a) non-African governments?
   (b) private capital markets abroad?
   (c) European banks operating in Africa?
   (d) large European or international firms operating in Africa?
   (e) other sources?

3. Could an ADB act as a catalytic agency in increasing investment opportunities?

4. Would an ADB be justified even if no additional outside capital is attracted?

5. What use could an ADB make of local currency contributions?

Section V.

1. Should the establishment of an ADB be made dependent on a test of adding to the total flow of capital?

2. In what ways could an ADB supply additional capital for African economic development:

   (a) directly, (b) by securing better access to existing sources of finance, or

   (c) by more effective project formulation?

3. In what ways would additional capital secured by or through an ADB be:

   (a) external and (b) internal?

4. Are there dangers that the establishment of an ADB would reduce the flow of capital to African countries from other sources?

5. What should be the relationship of an ADB to existing sources of finance?

6. Could the relationship of existing organizations to Africa be improved?

7. Do the six areas identified on p. VI, 2 of the working paper represent the specific gaps which could be best filled by ADB?

## Annex I.

## Application of General Principles of International Financing As Laid Down by the General Assembly Committee

In June 1961, a General Assembly Sub-Committee drafted the following 12 principles of international financing having general application.[1/] These principles were unanimously adopted by the Sub-Committee which was composed of members of all stages of development and with different economic and social systems. It may, therefore, be asked how far these principles are relevant and would also cover the operations of an ADB.

"1. Assistance to under-developed countries should be directed towards the achievement of accelerated and self-sustained growth of their economies. In keeping with this objective, assistance should be oriented towards the diversification of their economies, with due regard to the need for industrial development as a basis for social progress.

2. The provision of assistance shall be in conformity with the Purposes and Principles of the Charter of the United Nations.

3. Operations should not serve as a means for foreign economic and political interference in the internal affairs of assisted countries and should not be influenced by considerations relating to the nature of their economic and political systems.

4. Assistance should be of a kind and in a form in accordance with the wishes of the recipients and should involve no unacceptable conditions for them, political, economic, military or other.

5. Assistance should be provided in such forms and on such terms as are competible with the continued economic development of the assisted countries, taking due account of their balance of payments position and prospects.

6. Assistance should be given in a flexible manner and not necessarily be limited to specific projects or groups of projects. Assistance can also be given in support of general development plans, where such plans exist, or to general development requirements.

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1/ Committee on the United Nations Capital Development Fund, set up by General Assembly Resolution 1521 (XV). Its report is contained in document E/3514.

7. Resources must be large enough to make a significant contribution towards the achievement of accelerated and self-sustained economic growth of the less developed countries.

8. While funds should be derived from contributions by all Members, the bulk of the contributions should come from the more developed countries in a readily and economically usable form.

9. The size and nature of the contributions of the less developed countries should not be such as to hamper the effective mobilization of their resources for their own economic development.

10. The contributions should ensure the provision of assistance on a long-term and continuing basis.

11. Resources available should be augmented by a portion of any savings from progress made in internationally supervised worldwide disarmament.

12. Every effort should be made to co-ordinate the assistance rendered by all sources so as to achieve the maximum permanent beneficial effect on the economies of the less developed countries."

Several of the general principles laid down by the General Assembly would need closer examination in their application to an ADB. The first principle singles out diversification, industrial development and social progress as the orientation of assistance. While this seems quite appropriate also for the orientation of an ADB, Seotion VI has tried to define some more specifically African priority problems of economic development.

Principle 4 raises questions which are somewhat specific to an ADB and which are for instance not encountered by the Inter-American Development Bank. These relate to the fact that the African countries are partly independent countries, but partly dependent territories, and in some cases legally even parts of the territories of European countries. Apart from the legal question of membership of an ADB, this may raise questions in connexion with projects in dependent territories becoming independent during the execution and financing

of projects supported by an ADB. This applies particularly also in relation to principle 5 since the future balance of payments position and prospects of countries not yet independent is extremely difficult to assess, much depending on the terms on which indpendence is achieved. The balance of payments position and prospects of newly independent countries are also highly uncertain concepts.

Principle 6 which deals with assistance in support of general plans or general requirements may be of particular importance in African countries where the developmental importance of recurrent expenditures as distinguished from new investment projects is particularly great. But the principle may not directly apply to a specific institution such as an ADB would be. Possibly an ADB would be limited to specific projects or groups of projects while other institutions support general plans or requirements.

Principle 7 which stipulates that resources must be large enough to make a significant contribution would have to be translated into more direct quantitative estimates of the minimum resources required to bring an ADB into being. The actual amount would also depend on whether the major bulk of ADB's operations is expected to be direct financing by way of investments, lending or guarantees, or whether it is mainly conceived as a catalyst to channel additional finances to African countries from other sources. This in turn will depend largely on the means of capitalization of ADB. If the main justification for an ADB lies in its own direct or indirect contribution in obtaining additional financing, its activities should certainly be conceived as resulting in additional financing of the order of magnitude of $100 - 150 million per annum as a minimum. Since operations would have to be safeguarded for at least five years ahead (in accordance with principle 10) this would point to $500 million as a reasonable sum to be

available to ADB.[1]

At the same time while the contribution of an ADB should be "significant" in order to justify its establishment (unless this justification is not seen in other aspects of the promotion of economic development), it is equally clear that such a Bank cannot be a cure-all for the lack of economic development in Africa. In the first place, the capital resources required to "remove" African under-development quickly would be fantastically large. In the second place, the root causes of African under-development are only in part a lack of finance; the lack of other necessary elements limits the effective absorptive capacity for additional capital. In the third place, once development is get going it will to a considerable extent finance itself through the process of ploughing back profits, and through the process of using the increased government revenues becoming available for developmental purposes. This is the way in which all previous economic development has to a large extent financed itself, starting with modest sums, in the economic history of older industrial countries. There is no reason to assume that this pattern cannot repeat itself in Africa.

The problem of the general principles governing the size of the bank would, therefore, have to be a compound judgment of what can be "significant" on the one hand, and what can be "catalytic" and what can be "absorbed" on the other hand. As for the other bottlenecks other than lack of finance, while the absorptive capacity of African countries for capital is likely to increase in the process of economic development, on the other hand, as development proceeds, African countries will be able to form themselves more and more of the capital which they need. These conflicting tendencies will also have to be reflected in the subsequent development of an ADB.

1/ Some of this may, however, represent guarantees or other catalytic activities by the ADB and need not necessarily be fully reflected in the capitalization of the ADB or, if so, in the form of callable reserves rather than active resources.

Annex II.

Comparative Table on Various Financing Institution

| | International Monetary Fund | Export-Import Bank | US Development Loan Fund | International Bank for Reconstruction & Development |
|---|---|---|---|---|
| 1. Capital | Total quota $14,850,700,-000. Paid up as at April 1961: In USDollars $747,150 Gold $3,148,206,182.27 Member's currency: $10,990,471,845.73. | Loans and guarantees outstanding may not exceed $7 billion. | Appropriations in fiscal years 1958 and 1959: $850 million. Administration request for fiscal year 1960: $700 million. | Authorized capital as at June 1961: 21,000,000,000. Subscribed: 20,093,100,000. Paid-up: 2,012,860,000 Balance callable only to meet Bank's obligations: $18,080,240,000. |
| 2. Source of Funds | Subscriptions by member governments | U.S. Government. | U.S. Government. | Subscriptions by member governments sale of securities on private capital markets. |
| 3. Latin American share of subscribed capital | 7.3% (March 1959) | None. | None. | 5.7% (1959) |
| 4. African share of subscribed capital | 4.06% of Quota (April 1960) | None | None. | 2.94% (April 1960) |
| 5. Latin American share in total lending activity | 20% (gross drawings to end of March 1959) | 44% (authorizations 1954-58) | 7.5% (authorizations through 1958) | 32.40% (authorizations 1946-59) |
| 6. African share in total lending activity | - | 4.48% (authorizations 1948-59) | 5.15% (authorizations 1957-59) | 20.43% (authorizations 1946-59) |
| 7. Latin American Participation in management: | | | | |
| Voting power | 11% | None. | None. | 9% |
| Board of Governors | 20 out of 68 | None. | None. | 20 out of 68 |
| Board of Directors | 3 out of 18 | None. | None. | 3 out of 18 |
| 8. African Participation in management: | | | | |
| Voting power | 4.0% | None. | None. | 3.75% |
| Board of Governors | 9 members | None. | None. | 9 members |
| Board of Directors | - | None. | None. | - |

Annex II

Comparative Table on Various Financing Institutions (Continued)

| | International Monetary Fund | Export-Import Bank | US Development Loan Fund | International Bank for Reconstruction & Development |
|---|---|---|---|---|
| 9. Purposes | Promote international Monetary cooperation and sound foreign exchange practices. Provide short-term financial assistance to help members overcome temporary balance of payments problems. | Promote US foreign trade by helping to finance foreign imports of US goods and services. | Strengthen friendly foreign countries by helping them to develop their economic resources and to increase their productive facilities. | Promote reconstruction and economic development of member countries. |
| 10. Types of Projects. | Members have drawing rights in event of short-term balance of payments difficulties, related to size of their subscriptions, but subject to IMF decisions in each case. | Imports of U.S. supplies and equipment for productive purposes. | Technically feasible public or private projects that increase productivity or productive capacity and that cannot be financed by other established institutions or by private capital. | Productive projects public and private. Bulk of loans has been made to finance power and transportation projects. Loans must be guaranteed by member governments. |

Source: Based on table submitted by the U.S. Treasury Department to Senate Committee on Foreign Relations during hearings on the Inter-American Development Bank, June 1959.

Additional Sources: IDA First Annual Report 1960-1961, IBRD Sixteenth Annual Report 1960-1961, IMF Annual Report 1961 and Public Financial Aid to Developing Countries, General Confederation of Italian Industries, Research Department, Rome 1961.

Annex II

Comparative Table on Various Financing Institutions (Continued)

| | Inter-American Development Bank | EEC Development Fund | International Development Association |
|---|---|---|---|
| 1. Capital | June Subscriptions: $850 mn. for the ordinary resources of the Bank. Paid-up: $400 million or 27%; balance of 53% callable only to meet the Bank's obligations. $150 mn. additional representing resources of the fund for Special Operations, all to be paid. | $581,250 (EPU units of account) | U.S. $905,560,000 |
| 2. Source of Funds | Subscriptions by 21 Governments and sale of securities on private capital markets. | Subscriptions by members of EEC | Subscriptions by member countries. |
| 3. Latin American share of subscribed capital | 58.8% of the capital of the Bank; 33.3% of the resources of the Fund for Special Operations. | None | 2.11% |
| 4. African share of subscribed capital | None | None. | 2.77% |
| 5. Latin American share in total lending activity | 100% (prospective) | | 27.72% |
| 6. African share in total lending activity. | None. | 90% | 12.87% |
| 7. Latin American Participation in management: | | | |
| Voting power | 60% | None. | 4.26% |
| Board of Governors | 20 out of 21 | None. | - |
| Board of Directors | 6 out of 7 | None. | - |

Annex II

Comparative Table on Various Financing Institutions (Continued)

| | Inter-American Development Bank | EEC Development Fund | International Development Association |
|---|---|---|---|
| 8. African Participation in management: | | | |
| Voting power | None. | - | 3.14% |
| Board of Governors | None. | - | - |
| Board of Directors | None. | - | - |
| 9. Purposes | Encourage the investment of public and private capital for development purposes and contribute to the acceleration of the process of economic development of the member countries, individually and collectively. Provide technical assistance for the preparation, financing and implementation of development plans and projects including the study of priorities and the formulation of specific project proposals. | Promotion of social and economic development in associated territories. | Accelarating economic growth in less developed countries by making long-term development funds available on easy terms. |
| 10. Types of Projects. | Ordinary loans financed with the capital of the Bank: Productive projects public and private,including those forming part of a national or regional development programme: loans to development institutions in order that the latter may facilitate the financing of development projects whose individual financing requirements are not large enough to warrant the direct supervision of the Bank. Special loans Operations). (using the resources of the Fund for Special Projects where special circumstances surrounding the project or characterizing the borrowing country call for loans repayable in whole or in part in the currency of the borrowing country. | Social and economic projects. | Economic projects that are feasible and projects of the type not traditionally financed by the World Bank such as municipal water supply and technical training. |