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ARTICLES

The Asian Development Bank on the Eve of Commencing Activities

By Dr Helmut Abramowski, Bonn

Following the Inter-American Bank and the African Development Bank, a regional development bank on multilateral basis will now also begin to function in Asia in order to supplement the activities of the World-Bank group. Similar to the other multilateral institutions this new Asian Development Bank will exclusively have states as its members. But contrary to the other regional institutions, membership of the African Development Bank will not be restricted to the states in its region; other non-regional countries may also become members provided their economy is fully developed. Almost all industrial countries of the free world fulfilling this requirement have availed themselves of this possibility.

The essential preliminaries have been successfully concluded in the record time of just about one year. There was the Government Conference from October 21 to November 1, 1965, in Bangkok from which agreement about the Asian Development Bank emerged largely on the pattern of the deserving World-Bank terms, and the Signatory Conference at Manila followed already at the beginning of December, 1965. As quickly as nine months later, on August 22, 1966, the agreement about the establishment of the Asian Development Bank was put into effect in the form of the depositing of documents of ratification by the fifteen signatory countries. The opening session of the new Bank was scheduled to take place in November in Tokio.

The Committee on Preparatory Arrangements for the Establishment of the Asian Development Bank, consisting of twelve representatives of the regional member-states, one representative of the USA and the author of this article, has essentially concluded its work for the preparation of the opening session

of the Council of Governors. Well supported by a small administrative staff the Committee succeeded in preparing, besides some other aspects of its work, the procedure regulations for the Council of Governors, the bank's by-laws, the procedure for electing the executive directors and the Domicile Agreement to be concluded with the Government of the Philippines. All these things have been prepared for the relevant decisions by the Council of Governors. In addition some other resolutions were drafted for the Council (for instance one resolution about the admission of Switzerland, another concerning the increase of the initial capital to facilitate the admission of new members, and a third one about co-operation with other international organisations). The Committee has furthermore advised the UN Secretary General in his capacity as trustee of the Asian Development Bank in questions of formulating the investment stipulations for the first subscription rate and exercised its influence towards the members' paying the first quota of their capital participations as early as possible, which was in the interests of the Bank. Also, the Committee has fixed the place for the Council's of Governors opening meeting. Finally, it was for the Committee to find suitable and adequate offices for the period up to the finishing of the Bank's own planned building.

All this appears to meet all pre-conditions for the Asian Development Bank to commence activities, as scheduled, on December 19, 1966, from its chosen seat Manila.

Tasks and Business Principles

The Bank is supposed to further the economic growth and the economic co-operation within the scope of the UN Economic Commission for South-East Asia



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and the Far East (ECAFE) and thus contribute towards the economic development process in the ECAFE-countries as far as they are developing countries. For these purposes the Bank is to deploy public as well as private capital available for the financing of development aid with the view to using it for appropriate supra-regional and regional development projects. Over and above this, the Bank will be entrusted with the task of co-ordinating the development policy and the development planning of the regional member-states and co-operating, with this aim in mind, with the existing international and national institutions.

Under the Agreement the Bank is given ordinary and special business procedures, and within the frame of these activities the Bank will also provide technical advice and aid for its member-states.

In the sphere of its ordinary business the Bank is authorised to give credits for the financing of certain development projects and programmes, guarantee—again under certain conditions—third-party credits and take upon itself capital participations; the latter are, however, subject to prior ascertainment by the Council of Governors that the Bank is in fact capable of taking-up the business of capital investments.

Bearing in mind as much flexibility of procedure as possible, it has not been explicitly laid down in the Agreement of what kind the particular development projects to be financed out of the Bank's resources must be. A broad scale of projects reaching from infrastructural projects (roads, railways, ports, energy supply) and agriculture to industrial projects can therefore be expected for potential financing by the Bank. The foreign exchange cost portion of a project may be financed as well as, under certain conditions, also an appropriate part of the expenditure in the country's own currency.

The conditions of credits extended will by and large be the same as those governing credits by the World Bank. This means generally credit durations of up to 25 years, no redemption payments during the building period and rates of interest orientated on prevailing conditions in the international money markets. The Bank must also charge its creditors a commission on the respectively outstanding loan sum which, in turn, must be earmarked for the special reserve to be built up from the Bank's credit business against the covering of its resulting liabilities. At least during the first five years this commission will be no less than 1 % p. a.

In the sphere of its special business there are the Bank's granting of credits from special funds to be provided for purposes of approved development projects of economically high priority and where the terms are longer duration, later commencement of redemption and lower interest rates than those stipulated by the Bank for its ordinary business. With qualified majority the Council of Governors may decide that up to 10 % of the paid-in original capital be utilised for the establishment of such a (multilateral)

special fund. The Bank may also take into its administration additional (bilateral) special funds from its members or also from non-members and, for this purpose, make its own necessary arrangements for the utilisation, and conditions, with the relevant donor country.

With the exception of these last-mentioned bilateral special funds, where special arrangements are conceivable, all orders stemming from finance by the Bank's credits will be given on the basis of international tenders to be competed for, as must be emphasised, in member-countries only. Supplies from a non-member state remain subject to an exception agreed upon with qualified majority by the Board of Directors; such exceptions shall, however, be allowed only on the strength of evidence of special circumstances.

As the Bank will in the first few years hardly be in the position to float loans in the international money markets, it will for its ordinary business for the time being have at its disposal only the capital participations provided by its members. Right from the beginning the Bank must therefore take special care of the observation of sound banking principles and well-founded examination of the projects to be financed in order rapidly to gain international repute and a good credit standing; only thus will the Bank become capable of accomplishing capital issues of its own in the international money markets. In the interest of effectively deploying its meagre means the Bank will also have to make absolutely certain that the principle laid down in the Agreement is safeguarded, that financial aid by the Bank is extended only if and when the taker of money is not able to contract elsewhere at conditions that, considering all relevant factors, appear to the Bank as bearable in order to obtain the required funds for financing purposes (principle of the subsidiary deployment of means).

The Bank's Character

The Asian Development Bank is a multilateral institution. All member-states take part in the formulation of the business policy. Each member-state has a certain voting power for the influencing of a vote on decisions to be taken by simple or qualified majority. The votes for the various member-states are determined by straight forward and proportional voting rights. The former will to the amount of 20 % of the total votes be equally distributed among all member-states; the latter are conceded for each subscribed capital share (10,000 US-\$). As the regional member-states hold between them about 60 % of the original capital, they have the majority vote within the new Bank. In distinguishing between economically fully developed countries and the less developed member-states, the position is, however, that most of the votes fall to the former. But judging on the experiences of existing international finance institutions, there will be relatively few formal vote takings also in the case of the Asian Development Bank because it is a tra-

dition, and a necessity, with international finance institutions to aim invariably at procedures and practices on the basis of all-round agreement.

The Bank is an Asiatic one by character and shall also in the future remain to be so under the Agreement. Consequently the Bank's president must always be a national of one of the regional member-countries. Seven of the ten executive directors who will in practice have the responsibility of the Bank's activities, come from the regional member-states. Attention must also be paid to the proviso that, also at future possible capital increases, the regional member-countries' share in the authorised capital does not fall below 60 %.

Each member-state is represented in the Council of Governors by one Governor. The responsible supervision of the Bank's business activities falls upon the Board of Directors, for the time being consisting of ten members. The Bank's President is responsible for the organisation of the staff to be picked according to the principle of efficiency and on the basis of as broad as possible a regional recruiting. One of the other tasks of the President is the preparation of decisions to be taken by the Board. He presides over the Board's meetings but has a voting right only in the event of an even voting result. It is also the President's privilege to recommend Vice-presidents if and when an election by the Board becomes necessary.

Original Capital, Membership, Company Seat

The Bank's authorised original capital is \$ 1,000 million. The Council of Governors has the right, with qualified majority, to decide its increase; under the Agreement this body must at intervals of at least five years examine the appropriate sum of the capital required. The capital subscribed must be paid-in by one-half; the other half is stand-by capital to be called-up only for the meeting of liabilities by the Bank. The paid-in capital is due for payment in five equal annual instalments, and it must be provided in each case to 50 % in gold or convertible foreign exchange and to 50 % in the country's own currency.

Membership of the Bank is open to all ECAFE-states as well as all other countries in the ECAFE-region and economically fully developed countries outside it, provided they are members of UN or one of its special sub-organisations. According to the position on January 31, 1966, when the time limit for capital subscriptions by the so-called founder-members elapsed, the capital participations were as shown in the table next page.

Originally the regional member-states had intended to take-up \$ 650 million capital participations; \$ 7.92 million were initially reserved for membership of Burma and the People's Mongolian Republic. As these two countries did in the end not join the Agreement, this open quota is intended to be taken up by Afghanistan (\$ 1.42 million), Cambodia (0.5), Singapore (1.0)



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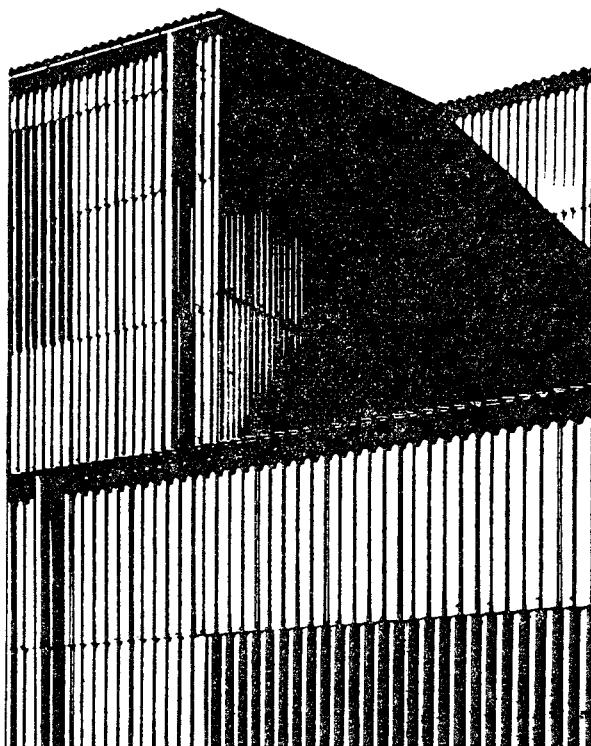
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and South Vietnam (\$ 5.0 million). It is expected that the Council of Governors will grant these applications at its initial meeting.

Amounts of Capital Participation and Distribution of Voting Rights Among the Regional and Non-regional Member-states of the Asian Development Bank

Country	Participation in million \$	Number of voting rights	Voting rights in % of total voting rights
Regional Countries			
Afghanistan	3.36	1,136	0.92
Australia	85.00	9,300	7.50
Ceylon	8.52	1,652	1.33
China	16.00	2,400	1.94
India	93.00	10,100	8.14
Iran	60.00	6,800	5.48
Japan	200.00	20,800	16.77
Cambodia	3.00	1,100	0.89
Korea	30.00	3,800	3.06
Laos	0.42	842	0.68
Malaysia	20.00	2,800	2.26
Nepal	2.16	1,016	0.82
New Zealand	22.56	3,056	2.46
Pakistan	32.00	4,000	3.22
Philippines	35.00	4,300	3.47
Singapore	4.00	1,200	0.97
Thailand	20.00	2,800	2.26
Vietnam	7.00	1,500	1.21
Western Samoa	0.06	806	0.65
	642.08	79,408	64.03
Non-regional Countries			
Belgium	5.00	1,300	1.05
Denmark	5.00	1,300	1.05
Germany	34.00	4,200	3.39
Finland	5.00	1,300	1.05
Great Britain	30.00	3,800	3.06
Italy	20.00	2,800	2.26
Canada	25.00	3,300	2.66
Netherlands	11.00	1,900	1.53
Norway	5.00	1,300	1.05
Austria	5.00	1,300	1.05
Sweden	5.00	1,300	1.05
USA	200.00	20,800	16.77
	350.00	44,600	35.97
	992.08	124,008	100.00

All non-regional signatory states and, excepting Iran, also all regional ones have deposited their documents of ratification with the UN Secretary General in New York on or before the contractual date: September 30, 1966. In the meantime, Indonesia and Switzerland

(\$ 5 million) additionally applied for membership, and the Council of Governors will at its initial meeting deal with these applications. Here, too, positive decisions can be reckoned with.

The Bank thus has thirty founder-members (among them 18 regional ones) with \$ 940 million capital participations between them. In spite of its participation in the Government Conference at Bangkok in the autumn of 1965, the Soviet Union did not accept the invitation to become a member; the other countries of the Eastern bloc have so far also not shown an interest in membership.

Manila, the capital of the Philippines, was chosen as the Bank's seat. Only the regional member-states took part in this decision which was reached immediately prior to the Signatory Conference of December 2 to December 4 at Manila. The non-regional members have exercised deliberate reluctance in this question which was initially very controversial (originally nine Asiatic cities competed for the seat of the new Bank).

Significance of Membership for the Federal Republic of Germany

The membership of the Federal Republic of Germany in the Asian Development Bank underlines the German interest in the economic development as well as political and social stabilisation in Asia. Germany's joining follows moreover from the traditionally friendly relations which, in some cases at least for a long time, have been a link between Germany and the ECAFE-countries. At the same time, the German capital participation in the Asian Development Bank offers a good and effective possibility for the supplementation of the already existing German bilateral and multilateral aid for Asia.

In view of the world-wide German development aid commitments and the increasingly tense budgetary situation, German participation in the Asian Development Bank could, however, not assume the proportions of its World Bank participation. All the same, with its \$ 34 million subscription, Germany ranks sixth among all capital subscribers and second only behind the USA among the non-regional member-states.



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