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Supporters of Self-Aid and Solidarity

By Dr K. Dorner, Bochum

Now Asia, too, has a big regional development bank. On December 19, 1966, the "Asian Development Bank" has started to operate from Manila, the capital of the Philippines. In 1960, the first of these banks, the "Inter-American Development Bank", was born, to which 19 Latin American republics have become affiliated, and in 1964, the "African Development Bank", serving at present 29 African member states, has begun to operate. In assessing the effectiveness of these institutions, it is, however, necessary to make do with judging the results of the Inter-American Bank's activities, since no reports have yet been published about completed projects by the African Bank. Until September 1966, the African Development Bank had received applications of membership countries for credits to the low total of \$ 250 million only. In the case of the Asian Development Bank, it will also be necessary to wait for at least one or two years until the first projects financed by the bank can be taken in hand. For anticipating the future tasks and for getting an idea about the possibilities for doing good of these two new institutes, the successes of the Inter-American Development Bank may serve as interesting pointers.

Many-sided Tasks of Regional Development Banks

National development banks in many African, Asian, and Latin American countries can look back on a respectable length of time in which they have built up their activities already, in contrast with the three big regional banks, but the latter have also a mission that is quite distinct from that of the national development banks: they are to serve the urge for international and supranational cooperation in aid of joint development policies. Traditional international frontiers which, especially in Africa, have frequently been taken over without a change from the period of carving up the dark continent by the colonial powers have become a network of obstacles in the path of an economic development that makes real sense. The three regional banks which have been mentioned are important tools for overcoming these difficulties. All the three, therefore, are listing for their affiliated countries identical aims as follows:

- ☐ Speeding up economic development through regional cooperation, especially when carrying out projects on infrastructures;
- ☐ Promoting trade between member nations through a rational division of labour and through efficient forms of large-scale production;

☐ Pooling and central distribution of international capital assistance granted to the region served by the individual bank;

☐ Opening up new international sources of capital;

☐ Mobilising low-interest bearing credits for financing private and public sector projects.

These aims are reflected in the loan policies pursued in the past by the Inter-American Development Bank. For example, this bank, in 1965, issued \$ 145 million, or 40 % of its total lendings, for projects improving the infrastructure of the region, through extending electricity supplies, building and improving roads, and creating new port installations; and some of these projects were adopted specifically for the purpose of improving regional cooperation.

In order to promote private farming and industrial ventures in individual countries, the Inter-American Development Bank gave credits to the national development banks of the countries in question, and these national banks passed on such credits on favourable terms to small and medium scale companies of their national economies. Thus, in 1965, about half of the advances made from the general capital fund were for such credits to Latin American private enterprises. More credits at easy terms, especially from the "Social Progress Trust Fund" set up under the Alliance for Progress, were issued for the purpose of improving social conditions in individual affiliate countries of the Bank. In this way, the Inter-American Development Bank has made available, during 1965, altogether \$ 110 million for housing construction, slum clearance, improving water supplies and sewage disposal, etc. Further lendings were used for extending and modernising education, especially higher education, in some of the affiliated countries.

A general breakdown of all the funds used cumulatively by the Inter-American Development Bank up to 1967 results in the following information:

Farming absorbed 21 % of all credits, social development measures took 36 %, and projects for industrial and infrastructure purposes about 40 % of the total. To promote international trade between the Latin American republics, the Bank, for the first time in 1965, granted export credits to individual countries. Promoting export trade in this way helps the countries concerned to economise foreign currency expenditure, especially when such trade aims at increasing the exchanges of capital and investment goods. It is also significant that the Inter-American Development Bank has become an important source of financing projects

through credits issued in local currencies. Thus, in 1965, more than half of the Bank's total lendings were redeemable in local Latin American currencies, so that debtor countries' balances of payments were not burdened too much.

Development Banks Open up New Sources of Capital

Only sovereign states can affiliate as members to regional development banks. However, for the first time in the history of these banks, the Asian Development Bank has not restricted affiliation to the states located in the region served by it, but fully developed industrial countries from outside the region may join up as well. It is significant that most of the Western developed countries have availed themselves of this invitation. On the other hand, this example was not emulated by any of the Soviet Bloc countries, including the USSR.

Each member has to take up a capital share in the bank, whose capital stock is composed of such shares of member states. The capital stock of the African Development Bank, for instance, was fixed at \$ 250 million. The capital stock of the new Asian Development Bank at present amounts to \$ 1,100 million, of which \$ 945 million have already been taken up as their shares by 32 countries, 13 of which are industrial countries. Among the non-Asian member states, there is the Federal Republic of Germany, having contributed \$ 34 million to the Bank's capital, which is the second largest share after that of the United States. This share capital, for the time being, will probably form the most important source of the Asian Development Bank for financing its lending activities. Over against this, the Inter-American Development Bank, whose capital stock was \$ 1,770 million in 1966, has already been offered access to the international capital markets, where it can place its own bond loans, thus increasing its capital resources. Both the Asian and the African Development Banks cannot yet avail themselves of this source of supplementary finance, in the case of the African Bank because of the unsatisfactory paying-up record of its members on their capital shares. Until 1966, the Inter-American Development Bank has been able to place in the world's capital markets long-term loans for altogether \$ 285 million. Of this total \$ 225 million were taken up in the United States alone, \$ 60 million only in Europe, because Europe's capital markets are at present notoriously weak.

The vast expansion of the Inter-American Development Bank's operations, after it has been working for a number of years, is convincing evidence of the great importance of such institutions for all development policies. For the support of about 400 economic and social development projects, the Inter-American Development Bank has thus been able to mobilise, up to the beginning of 1967, credits for more than \$ 2,000 million. This was more than 32 % of all the long-term international and public-sector credits which Latin America received during this period for financing economic development. In 1965 alone, the lendings of the Bank rose by about 30 % over and above the average



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level reached during preceding years, and in 1966, the Bank was able to top this result by granting credits for a total of \$ 474 million.

In advancing along this road, the Inter-American Development Bank has opened up new fields of operation, which can certainly also form useful areas of activity for the two sister banks in Africa and Asia. Among such new activities are support and supplying pre-finance for so-called pre-investment studies in several of the affiliated states and for their planning organisations. Experience has shown in the past that many countries were not able to organise such studies, as they lack the required financial and technical resources, which makes it difficult to prepare development projects that are satisfactory in size and quality. The African Development Bank, too, was recently granted \$ 3 million from the United Nations Development Programmes for financing such studies.

Huge Tasks for the Future

Development Banks could also undertake another important mission, by coordinating development aid for the individual member countries of their region. There are so many different foreign and international organisations charged with giving financial and technical aid and assistance, that it is difficult for applicants to see their way through this jungle, and the views of these bodies are also often so different that planning and organising capacities in many recipient countries are simply not up to dealing with these contradictions. The Inter-American Development Bank, in 1965, successfully coordinated foreign development aid for Ecuador, and for this reason Uruguay and Paraguay since then have asked the Bank to assume the same mission as coordinating trustee for their own development programmes.

In addition, the Inter-American Development Bank has proved its worth for mobilising and opening additional capital resources from its own region. In 1965, it launched a short-term loan for \$ 65 million, and this was almost fully subscribed by the central banks and public authority finance institutions in fifteen Latin American countries. The same funds, until then, had usually been invested in foreign short-term obligations, which were now re-channelled into Latin America's own economic development.

Beyond this, the Inter-American Development Bank has been an important promoter of economic and political integration among the countries of Latin America. In 1965, the Bank formed its own Institute for Latin American Integration (INTAL), which has been commissioned to study the economic, technological, legal and institutional conditions for cooperation and to find out about possibilities of such cooperation being speeded up. In 1966, the Bank created a special fund for financing regional investment studies, the "Regional Preinvestment Fund", whose special task it is to finance the investigation of the feasibility and costs of infrastructural and investment projects suitable for improving transport connections, telecommunications, and trade between the countries of Latin America.

Promoting closer economic cooperation between African states will certainly also be one of the most important future tasks of the African Development Bank. Léopold Senghor described "balkanisation" of Africa as one of the basic diseases of this continent, and President Modeiba Keita had stated already in 1961: "We are convinced that the States of Africa will never be independent, in the full sense of the word, if they remain small States, more or less opposed one to another, each having its own policy, its own economy, each taking no account of the policy of the others."

Even beyond all this, the regional development banks stand for the important insight that self-help is the most important prime mover for economic development of present-day farming countries. People too often forget that in most developing countries, 90 % of real capital formation is self-financed. Foreign aid can only be, and must not be more than, a useful supplement to these own efforts of the recipient countries.

Summing up, it may be stated that the Inter-American Development Bank has already proved to be an efficient instrument for mobilising the recipient countries' own development resources and for strengthening the idea of solidarity between the developing countries. We can only hope that the African Development Bank and the newly formed Asian Development Bank will soon be able to point to similar achievements.



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