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African Development Bank and World Bank

by T. E. Mswaka, St. Andrews *

In their annual report for 1966, the Board of Directors of the African Development Bank (ADB) complained of the tendency of member countries of the Bank to "channel projects in the first instance to customary sources of finance, coming to the African Development Bank if they are unsuccessful elsewhere."¹ These were the early years of the operations of the Bank before it had had time to prove itself. The ADB has now been in existence for at least seven years. What this article is concerned with is the extent to which the Bank could be looked upon as an alternative if not a primary source of funds by its members vis-à-vis the World Bank and other institutions, and tries to compare the terms on which those funds are available from the ADB and the World Bank.

ADB's Problems of Competitiveness

Over the period 1966–72 the ADB has not benefited substantially, if at all, from the shift of the source of aid and grants from bilateral to multilateral organisations. Of the total African net receipt of aid of \$ 1,607.65 mn in 1967–69, 15.8 p.c. came from multilateral organisations compared with 19.8 p.c. in 1968–70². Over the same period, the Bank relied only on its primary sources of capital subscription from its members in

order to lend. In 1970, UA (Units of Account) 39 mn were outstanding on the amount due of UA 106.8 mn³. In addition to the problems of arrears, the Bank has been faced by three other problems all of which relate to its ability to compete with established alternative institutions.

□ The first problem relates to competition with the World Bank. The World Bank is not only the oldest institution in the business, well-known and commanding massive resources compared to those of the ADB, but was even more active over the period since the Bank came into existence. While only 12.8 p.c. of the World Bank Group financial commitments to the developing countries from 1946–1968 went to East and West (excluding North) Africa, in the period 1969–73 alone, such commitments were 14.8 p.c.⁴

□ The second problem from which the ADB has suffered is the lack of diversification of the funds, available to it which made it impossible to offer attractive terms to its potential borrowers. As is well known, the World Bank has its soft arm in the International Development Association (IDA) which offers loans at attractive rates of interest and for longer periods. The Asian Development Bank on the other hand established two years (in

1966) after the ADB, operated in 1970 three special funds⁵ while the ADB was still in the process of negotiating to establish the first African Development Fund.

An idea of the ADB's relative position and its performance in comparison with other institutions might be gained from the commitments of their funds. Mr Andrew Kamarck has reported that, "by 1970, the World Bank Group of agencies had become the largest single financier for the less developed countries — bigger even than the US Agency for International Development (AID)" — with its commitments totalling \$ 2.6 bn in 1970/71. By 1971/72 financial commitments by the World Bank Group were expected to be "twice as much as all the other multilateral agencies put together⁶." The volume of annual lending or expenditure by some of the institutions, ranged from \$ 650 mn by the Inter-American Development Bank, to the United Nations Development Programme's (UNDP) expenditure of \$ 280 mn a year; the EC's European Development Fund's \$ 220 mn and the Asian Development Bank's \$ 250 mn per annum. In this league, the African Development Bank comes last, with about \$ 25 mn a year⁷.

□ The third problem therefore, is that, with little resources, the

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¹ Annual Report 1966, p. 21.

² ECA, Survey of Economic Conditions in Africa, 1971, Part I, p. 316-317. Total amount was US\$ 1679.11 mn.

³ ADB Annual, Report 1970, p. 48. One Unit of Account is equal to one US\$.

⁴ Robert S. McNamara, Address to the Board of Governors, September 24, 1973, p. 2.

⁵ Asian Development Bank, Annual Report for 1970, p. 82-3.

⁶ Andrew M. Kamarck, The Allocation of Aid by the World Bank Group, Finance & Development, Sept. 1972, p. 23.

⁷ Ibid.

Bank has been forced to examine its projects more carefully and to restrict its activities far below the capital requirements of the continent.

African Members Only?

It is not necessary here to go into the detailed question of the membership composition, structure and lending policies of the ADB⁸. It is, however, important to note that the Bank has sailed very closely to the *modus operandi* and policies of the World Bank and similar institutions, against which, and because of its limited resources, it cannot compete. The Bank itself realises this. It also realises that the restriction of membership to African countries only has probably resulted in its being unable to attract funds for its activities compared to the Asian Development Bank. Evidence for this realisation is the recent and current discussion within the Bank, on whether or not the institution should open its doors to some qualified membership of the non-African states and institutions. This discussion tends to presuppose that wider membership of the organisation and more funds at ADB's disposal will necessarily mean that the Bank is able to attract more business from its membership and away from its competitors.

This is, however, most unlikely for the first reason that financial resources available to it will not approximate, let alone exceed, those of its competitors. Secondly, the only significant means of increasing its resources is to attract non-African membership among the largest potential contributors. But if this were possible, it must be implicitly assumed that such members will want to exercise some influence on the disposal of funds and the terms attaching to them. Here, the difference between the

successes of the Inter-American and the Asian Development Banks is not only the favourable climate of aid giving which the Inter-American Development Bank harvested from, during its long period of operation; but also in the case of the Asian DB, a long established consortia tradition not altogether dissimilar in concept and operation, was successfully exploited. These latter institutions have been more fortunate in having rich and immediate geographical neighbours closely identifying their own interests with those of their respective regions as a whole: the United States in the case of the Inter-American Bank, and Japan and Australia in the case of the Asian Bank.

ADB's Loan Commitments

Further doubts on the ADB's ability to become the principal source of funds for the African countries, assuming more funds at its disposal, stem from the extent to which it will be possible for it to break out of the straitjacket of the canons of development banking — bankable theory, etc. Given the financial resources at its disposal, and allowing for substantial increases in the future, it will have to substantially soften its terms to the recipients of its funds. A very rough analysis of its loan commitments up to February 1972 suggests a grant equivalent of its loan commitments of about 47.6 p.c. compared to the World Bank's 69 p.c. in 1971⁹. The average interest rate (weighted) of the ADB loans was 5.34 p.c. with an average maturity period of 15.17 years (including grace period). The interest rate compares with

3.8 p.c. in 1971 and maturity of 21.6 years (excluding grace period) for the World Bank. The significance of these comparative terms will be appreciated when it is realised that about 43.8 p.c. of the IDA Part II countries are in Africa, among them the least developed and the most poor. The question here is how far the ADB is able to soften its terms in order to accommodate them, and so as to compete successfully with other aid organisations in the field. The answer is: not very much.

Over the period 1967 to February 1972, 29.2 p.c. of the loan commitments and other funds of the ADB went to the three countries of the East African Common Market, while 34.3 p.c. went to the countries of the West African sub-region, 21.0 p.c. going to three countries of North Africa — Algeria, Morocco and Tunisia¹⁰. There was not only a pronounced geographical bias in the geographical commitment of financial resources, but the bias was stronger in favour of the larger countries in the areas concerned. About 44.2 p.c. of the Bank's financial commitments going to five countries — Kenya 12.3 p.c., Tunisia 5.0 p.c., Morocco 5.1 p.c., Algeria 10.9 p.c. and Nigeria 10.9 p.c. leaving 55.8 p.c. to be shared by the remainder of the African countries. Far from the direction of financial resources being a deliberate policy of the Bank it illustrates the implications of the conventional bankable criterion of the resource distribution by the Bank. It also illustrates the dilemma which that criterion poses in the face of very limited resources.

Fundamental Reappraisal Necessary

Limited resources of the Bank and poverty of the clients suggest that it would have to seek

⁸ For a lengthy discussion of these see John White, *Regional Development Banks*, ODI, 1971.

⁹ "Grant element" is defined as the difference between the face value of the loan and the present value, calculated at 10 p.c. discount rate, of the stream of interest and amortization payments, expressed as a percentage of the face value of the loan, see B. A. de Vries, *The Plight of Small Countries, Finance and Development*, Sept. 1973, p. 7. World Bank/IDA, Annual Report, 1973, p. 93.

¹⁰ ADB, Annual Reports, 1967-71, and Press Releases.

cooperation in joint financing of loans and projects with other institutions in the field. To do this, it would obviously have to abandon its cherished position and pride of being truly an African institution in structure and mode of operation. Indeed, joint financing has taken place to some extent in the last few years and is likely to continue. Discussion on diversification of the membership of the Bank shows that it is even prepared to reconsider its purely African character. Alterations in the composition of its membership will have a marginal effect as long as there is no change in its overall position and as long as it does not alter its basic policies.

The question therefore is whether the time has not come when it must have a fundamental reappraisal of the whole organisation of its finances. In such a reorganisation, the distinction in its priorities might be between inter-African projects and those which are purely national. With its primary capital resources arising from contributions from its members, such funds could be exclusively utilised in the development of inter-African infrastructure which is so necessary and urgent in the encouragement of intra-African trade. On these funds and their use, the Bank would retain its independence of decision and action except only in cases where there was joint financing. But even here, it would be the dominant contributor and therefore the major influence.

In its efforts to establish a special fund, there could be more of these funds along the lines of the Asian Development Bank, on subject or sector lines. Both the membership and the contributions to these special funds would be open to non-African States and organisations. The principle adopted by the West African Rice Devel-

opment Association (WARDA) whereby African country members contribute to the administrative budget and non-African to the projects, might usefully be adopted here. As African states belong to the poorest regions of the developing countries, African capital needs encompass practically the whole of their development spectrum. Some order of priority in the establishment of special funds would have to be made by the Bank in consultation with its member states. Whatever order of priorities will be agreed upon, the advantage of this approach is that the special funds would be action-oriented to specific areas, and the fact of their existence would relieve the Bank of pressure on its limited resources. This will enable the Bank to concentrate them on making the continent truly interdependent in trade.

ADB and Multilateral Institutions

On current evidence of the shift in sources of aid from bilateral to multilateral institutions, there is also likely to be a bias in favour of multinational projects. The Bank could usefully exploit this trend by actively encouraging multinational projects and joint financing. The fear must be that as aid becomes more multilateral, it carries with it the anonymity of the original donor. On past and present evidence donor-identification with particular projects has been an essential element in aid giving from the point of view of the political and economic advantages arising from it. It is unlikely that all aid will originate from multilateral institutions in the near future, and yet there is a real possibility that donor countries may reduce direct aid below what they could afford, but only consistent to their proportions of contributions with other countries. This danger arises even more so in the European Economic Com-

munity especially with Britain's membership.

The possibility of this danger is not ruled out by the likelihood of the African countries taking up the first of the three options of association with the EC, open to them. It emphasises more than ever, the need for an imaginative and extensive exploitation of all the possible mechanisms of obtaining more funds. In the event of the African countries taking option one of the association with the EC, the European Development Fund would then have to cover a wider geographical area of Africa than hitherto. It would, almost immediately, become an additional serious competitor to the ADB, offering terms on loans, which are superior to those of the World Bank¹¹.

What this analysis suggests is the complete hopelessness of the position of the ADB insofar as its inability to compete with other institutions in the field of aid is concerned. It does not appear that the tendency of member countries of the Bank to "channel projects in the first instance to customary sources of finance, coming to the African Development Bank if they are unsuccessful elsewhere" will be avoidable in the near future. What is required at the moment is the judicious exploitation by the Bank of the various possibilities which exist, some of which we have outlined above. Inability to compete on the loan market does not necessarily impair the influence of the Bank which it could still exercise in the initiation of project studies and co-ordinating action. In the final analysis, however, the Bank will be what its members make it, and on this, they could choose to make it an appendage of the other multinational institutions or the catalyst, their supervisor and coordinator. Which of these will emerge remains to be seen.

¹¹ David J o n e s, *Europe's Chosen Few*, ODI 1973, p. 65 and data above.