

THE ADB'S ROLE IN DEVELOPMENT IN THE REGION AND THE ISSUES AT THE 19TH ANNUAL SESSIONS

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Dr. Gamini Abesckera, Additional Director, Economic Affairs Division, Ministry of Finance and Planning, who was a member of the Sri Lanka delegation to the 19th annual meeting of the ADB in Manila, provides an assessment of the major issues at these deliberations and the ADB's role in the region. Sri Lanka's Finance Minister Mr. Ronnie De Mel who functioned as Chairman of the Board of Governors during the 1985/86 period presided over the sessions.

Background

The Asian Development Bank is one of the three Regional Development Banks in the world today. The other two are the Inter American Development Bank and the African Development Bank. While multi-lateral financial institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development (The World Bank) encompass all the regions in the world, institutions such as the ADB focus on the development needs of a specific region. However, the membership of such Regional Development Banks is not confined to the countries in the region. Accordingly, the ADB is an international partnership of both Regional and Non-Regional countries promoting the economic and social progress of the developing countries in the Asia-Pacific Region. The ADB which was established in December, 1966 at present has 47 members consisting of 35 countries from the region and 12 countries from outside the region. The latest additions to the ADB membership were Spain and the Non-Regional country and The People's Republic of China the most populated country in the Region.

The Board of Governors of the ADB - the highest policy making body of the Bank, consists of the Governors (who are usually the Finance Ministers of the respective countries) representing all Regional and Non-Regional member countries.

While this Board meets annually (or under special circumstances) the responsibility of the management of the Bank is vested with the Board of Directors appointed by the Board of Governors. The Board of Directors, at present is composed of 12 Directors (each with an Alternate), of which 8 represent constituencies of the Regional countries and 4 those of the Non-Regional countries. The posts of Director and Alternate Director are rotated among the countries which make up a constituency. Accordingly, Sri Lanka had an Alternate Director during 1983-85 period and now has a Director on the Board of Management of the ADB. The President of the Bank is the chief executive officer who is elected by the Board of Governors for term of 5 years, after which he may be re-elected; and he is assisted by 3 Vice Presidents who are appointed by the Board of Directors. The Asian Development Bank has 21 departments and offices including two Resident Offices (for South Asia in Dhaka, Bangladesh; and for the South Pacific Region in Port Vila, Vanuatu). The ADB is contemplating the setting up of a Regional Office in Europe as well to mobilise greater assistance from the Non-Regional donor countries.

Bank Assistance

The assistance of the ADB consists mainly of loan and equity operations technical cooperation, training activities, sectoral reviews, co-financing

arrangements and special programmes such as Women in Development and Environmental Management. The Financial resources of the Bank mainly comprise Ordinary Capital Resources (OCR) which includes subscribed capital, reserves and funds raised through borrowings while there are two Special Funds set up with the contributions made by member countries for specific purposes. These two Special Funds are the Asian Development Fund (ADF) and the Technical Assistance Special Fund (TASF). The ADF is considered the "soft loan window" of the Bank which facilitates concessional lending to the Bank's poorer member countries while the TASF extends technical assistance to such countries. Table 1 summarises the operational activities of the ADB.

Loans for Sri Lanka

The Asian Development Fund of the

ADB can be considered as performing a similar function as the International Development Association (IDA) under the World Bank's umbrella. In other words the ADF assistance is limited to the poorer developing member countries of the Bank. During 1968-85, ADF was provided about 1/3 of the Bank's assistance to member countries. Accordingly, Sri Lanka has been obtaining a bulk of the loans it received from the ADB through the soft loan window. As of end 1985 the Bank had provided 40 loans amounting to about U.S. Dollar 466 million covering 34 projects in Sri Lanka. Of these loans 34 have been from ADF amounting to U.S. Dollar 452 million or 97 percent of the total loans that Sri Lanka received. A breakdown of the cumulative bank lending to Sri Lanka by sectors is given in Table 2. Furthermore, Sri Lanka has received

technical assistance totalling U.S. Dollar 6.3 million which in turn facilitated several projects to obtain bank loans amounting to U.S. Dollar 93 million. A recent evaluation completed by the ADB on project implementation in Sri Lanka revealed that despite several delays in moving the projects Sri Lanka has progressed satisfactorily compared with other developing member countries. Sri Lanka's disbursement ratio in the 1980s exceeded the average ratio for all recipients of ADF resources. As at end 1985 of the total of 40 loans that the Bank had approved for Sri Lanka, 17 had been completely disbursed and 23 were under administration. Cumulative disbursements of bank loans to Sri Lanka totalled U.S. Dollar 197 million or almost 50 percent of the total amount of loans that were effectively available. The Bank's lending strategy in Sri Lanka has been primarily designed to enhance the country's capital formation and facilitate structural adjustments needed to re-direct the economy. The growth of ADB's assistance to Sri Lanka can also be seen in Figure 1.

Resource Mobilization

The resource mobilisation pattern of the Bank as at end 1985 indicated that authorized capital amounted to U.S. Dollar 16.2 billion while a total of Dollar 6.7 billion had been borrowed from international capital markets for lending purposes. Another Dollar 6.7 billion had been mobilized in ADF contributions for concessional lending while TASF contributions represented Dollar 76 million. Taking the entire period of the ADB's operations as a whole the Bank has committed a total of U.S. Dollar 17.5 billion in loans for 704 projects during the 1967-85 period. It has been estimated that each dollar lent by the Bank is matched by an additional investment of Dollar 1.5 provided by borrowing countries and co-financiers of projects. Therefore, the total capital

Table 1
Operational Activities of the ADB (1967-85)
(amounts in U.S. Dollar million)

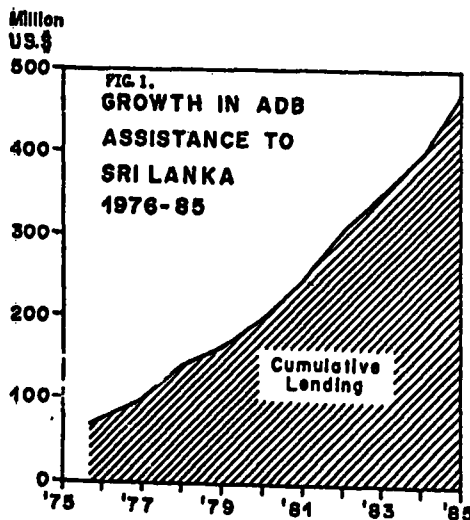
As at end of 1985

Loan Approvals	
Number of Projects (a)	704
Amount of Loans	17,490.1
Ordinary Loans	
Number of Loans	426
Amount of Loans	11,948.6
Disbursements	5,480.1
Asian Development Fund Loans (b)	
Number of Loans	348
Amount of Loans	5,541.5
Disbursements	1,970.0
Equity Operations	
Number of Projects	7
Amount	7.0
Technical Assistance (Grants) (c)	
Number of Projects	720
Amount of Grants	173.0
Regional Activities (Grants) (c)	
Number of Projects	196
Amount of Grants	30.0
Ordinary Capital Resources	
Authorized Capital	16,222
Subscribed Capital	15,970
Borrowings (gross)	6,748
Special Funds Resources	
Asian Development Fund	6,082.2
Technical Assistance Special Fund	76.0

(a) Projects financed from both ordinary resources and ADF are included.

(b) ADF was established in 1974.

(c) Included projects financed from sources other than the Bank, mainly UNDP and the EEC



formation under the projects financed by the ADB is estimated to amount to almost Dollar 44 billion.

From the very beginning of lending operations of the Bank, an emphasis on the agriculture and agro-industrial sector could be observed. Given the dominance of agricultural activities in the economies of the Asian countries such an emphasis was both inevitable and desirable. For example, of the total loans approved by the ADB (amounting to Dollar 17.5 billion) during the past two decades, more than 30 percent represented assistance to the agriculture and agro-industry sector. Since the emergence of the energy crisis in 1973/74 which aggravated in the 1979/80 period, there has been a special importance attached to financing projects in the energy sector. Of the total loans approved during the 1968-85 period by the ADB about 25 percent consisted of assistance to the energy sector. It appears that being a Regional Development Bank, the ADB has recognized the importance of promoting Development Banks in the member countries. Accordingly, about 11 percent of the Bank's financial resources have been channelled through Development Finance Institutions (DFIs) in the borrowing countries. Credit lines to DFIs have become the primary mode of the Bank's support to the private

sector as well. Another area which attracted the attention of the ADB has been the development of infrastructure to facilitate and stimulate economic activities in poorer member countries. For example, transport and communication projects together obtained more than 13 percent of the ADB's loans. However, this did not result in the neglect of development of social overheads, as almost 8 percent of loan approvals represented water supply and sanitation projects, while another 8 percent or more reflected financial assistance to a range of projects including urban development, housing, education, health and population. The industry and non-fuel mineral sector received approximately 3 percent of the total loans approved by ADB during the 1968-85 period. The allocation of resources by sectors are shown in Figure 2.

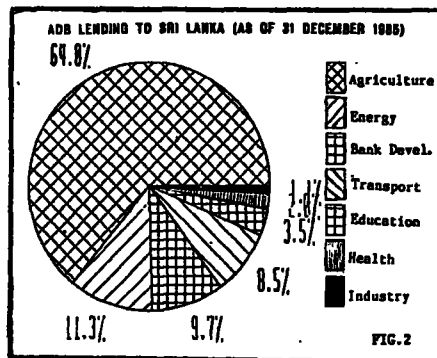
A pattern similar to what could be observed in regard to lending by the ADB can be seen in respect of its technical assistance as well. In this context, the emphasis on agriculture and agro-industry has been even greater as almost 63 percent of technical assistance has been for this sector. Taking the resources made available to the poorer countries under the Asian Development Fund also it can be observed that almost 50 percent has been for agriculture and agro-industrial projects while about 22 percent has

gone to the energy sector. It is noteworthy that assistance under the ADF is provided on very concessional terms, at no interest.

Despite the impressive record of lending by the ADB to developing member countries during the past two decades the Board of Governors at the 19th Annual Meeting noted that there has been a decline in lending in the past year. In his capacity as the Chairman of the Board of Governors, Sri Lanka's Minister of Finance and Planning Mr. Ronnie De Mel expressed his concern about a decline in the Bank's lending by 15 percent in 1985 as compared to the lendings by the Bank in 1984. Three main factors were cited as the reasons for the deceleration in Bank lending: slower world economic growth, domestic resource constraints, and measures taken by borrowing countries to moderate the external debt burdens. In this context Mr. de Mel reviewed the international economic environment in which the Asian countries had to manage their economies, and stated that "the scope for Adjustment and growth in Asia is conditioned by the policies of the industrial countries". He added that "growing protectionist tendencies and slow expansion in industrial countries have made the outlook difficult for countries with export oriented market economies" "Several speakers from the developing countries endorsed this statement.

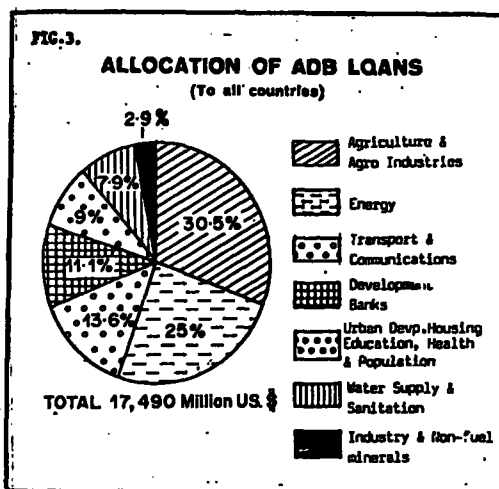
Asian Development Fund

The need to strengthen the Asian Development Fund to facilitate further contributions lending to poorer developing member countries was emphasized by Mr. de Mel. While the donor countries indicated their constraints for enhancing contributions to ADF, the developing member countries reiterated the need for the replenishment of ADF. For example, the Governor from Australia stated that the replenishment was not easy "because donor



countries showed a greater pre-occupation with burden-sharing" and suggested that "one solution might be to have some kind of linking of ADF contributions with ADB capital shares." The Governor from Bangladesh urged that the ADF replenishment must be pursued strongly in view of the growing absorptive capacity of the recipient countries and the likelihood of the need for funding contingencies. In this context it is important to note that ADB introduced an innovative approach to contingency lending by granting special assistance to the newly established government of the Philippines. The President of the Philippines Madam Corazon Aquino in her inaugural address at the Annual Meeting appreciated this step taken by the ADB, stating "The one hundred million dollars loan to our country will not only facilitate the launching of priority development projects; it should also serve us as a signal to other banking institutions". Mr. de Mel in his chairman's address cited the special assistance loan to the Philippines as a good example of how the Bank can operate decisively and flexibly in meeting emergency situations".

The President of the Asian Development Bank, Mr. Fujioka reported at the meeting that the donor countries reached an agreement to replenish the Asian Development Fund with a total of Dollar 3.6 billion just two days before the annual meeting. While appreciating this gesture, developing member countries expressed their disappointment as the replenishment agreed upon fell short of the target of Dollar 5 billion proposed by the management. The Governor for India Mr. Visvanath Prathap Singh introduced the ADF as "a vehicle for lending to the Bank's poorer member countries". The Indian Finance Minister also argued that the target proposed by the management for the replenishment was "by no means ambitious and needed to be fully supported".



ted". In the context of mobilizing additional flows of resources to support the efforts of developing countries, the Secretary of the Ministry of Finance and Planning, Sri Lanka Dr. W M Tillakaratne who made the country speech in his capacity as Alternate Governor to the Bank, raised an interesting issue when he referred to the declining oil prices and the estimated transfer of income of some Dollar 60 billion from developing oil exporting countries to the industrial world that would result from the price change, and asked the question, "Can the industrial world...take bold initiatives to facilitate such a transfer of resources to the developing world?."

Capital Increase.

The Governors considered the issues of "Special Capital Increase" of the Bank in the context of further resources and financial policies of the ADB. Most Governors indicated that these measures were necessary. For example, Governors from Finland, Spain, Sweden and United Kingdom felt that it was necessary to start preparatory work for the next General Capital Increase without delay. The Governor for Japan Mr. Takeshita stressed that it was "essential for the Bank to maintain its sound Financial base in order to enhance the Bank's role in the future". However, the response from the United States Governor did not

appear to be very encouraging. While arguing that a General Capital Increase "will most likely not be necessary before 1989 or 1990" the U S representative clearly stated that his country "does not support a new round of Special Capital Increases at this time".

Yet, several European countries including the Netherlands, indicated their willingness to support a Special Capital Increase. The President of the Bank, Mr. Fujioka informed the meeting that five European countries - Finland, France, Italy, the Netherlands and Switzerland were authorized special increases in the capital subscription by the management. In regard to the strengthening of the Technical Assistance Special Fund, (TASF) there appeared to be a wider support from both donor and developing member countries. The view of the United Kingdom (which is the second largest contributor to the TASF) was that it should help to increase the assistance "for improving project preparation and implementation, and the abilities of the recipient countries to cope with unproductive use of resources and lack of administrative coordination".

New Lending Rate System

In regard to the Bank's financial policies, the Governors noted that several important developments had taken place. During 1985, the Bank management approved the adoption of "a pool based variable lending rate system". President Fujioka elaborated on the new system in his address. He pointed out that "the new system would bring the Bank's financial structure more closely in line with prevailing market conditions" and will allow the Bank much more borrowing and lending flexibility than under the traditional fixed lending rate system. In the Chairman's address Mr. Ronnie de Mel also welcomed the new system stating that, "it could lead to lower the lending rates for developing

member countries" as it provides for the determination of interest rates on a half yearly basis, taking into account the actual cost of the Bank's borrowings.

Assistance to Private Sector

Another important feature of the ADB lending in the past year has been to finance the private sector projects without Government guarantees. This policy was commended by both donor countries and developing member countries who also noted the setting up of a private sector Division in the Bank for this purpose. In the same context, several Governors referred to the policy dialogue initiated by the Bank on privatization. While appreciating the merits in the Bank's approach, several speakers emphasized the need to be cautious and pragmatic in promoting the goal of privatization.

The Governor for India, urged that "Assistance to the private sector should not be at the expense of the assistance which the Bank normally provides to the public sector for financing essential investments in core sectors." The Governor for Indonesia argued that "it could be more difficult for private sector enterprises within the developing member countries to service higher debt costs of foreign currency loans." The representative from the Sweden emphasized that, "supporting the private sector must never become a goal in itself, but must be seen in relation to its contribution to long-time development" and suggested that "it is upto each individual in the strategy of economic development". The views of Sri Lanka were reflected in both Mr. Ronnie de Mel's address from the Chair and Dr. Tillakaratna's statement on behalf of the country. Mr. de Mel stated that, "the Bank must remain specially sensitive to the fact that the private sector in most developing member countries, is still at a relatively early stage of

development." He added that the constraints to the growth of private sector vary widely across the region and concluded that it is necessary to ensure "a sound balance between economic efficiency and social welfare by giving a due place to both the public sector and the private sector in our countries". In the country speech from Sri Lanka, Dr. W.M. Tillakaratna suggested that "rather than merely emphasizing equity participation by the private sector in state owned ventures, the Bank should encourage a greter degree of private sector participation through the adoption of appropriate macro-economic policies by the countries."

Policy Dialogue

The Board of Governors considered a range of other technical and operational issues as well as a number of matters pertaining to organization and administration of the Bank. An important operational policy issue which stimulated the interest of the speakers was the Bank's effort to conduct "policy dialogue" with the developing member countries.

While the donor countries in general appreciated the need to work out a coherent country programme within a structured policy framework, almost all developing member countries expressed their reservations about the desirability of such an effort. For example, the Governor for Indonesia strongly opposed that "so called policy dialogues should not be used by the ADB- or other donor nations, as a veiled form of conditionality". This view was emphatically endorsed by Dr. Tilakaratna, Alternate Governor for Sri Lanka, stating that "these policy dialogues should not become the basis for cross-conditionality among institutions" such as the World Bank, IMF and ADB. He requested the ADB to continue its role as a good project lender

"without getting too involved in macro-economic policy prescriptions for its developing member countries".

Size of the Board

Of the organizational and administrative matters that the Board of Governors had to deal with at the 19th Annual Meeting, the most controversial issue was the size of the Board of Directors. While all of them agreed that the latest member, the People's Republic of China must be accomodated on the Board, there was no consensus whether this should be done by increasing the size of the Board. Several Non-Regional members including the United Kingdon appeared to prefer to keep the Board at its present size of 12, due to cost considerations involved in an increase in the size; but the majority of Regional Members stressed the need for an expansion. It was pointed out that if China is to be given a seat on the Board of Directors without creating an additional seat or seats it would result in the displacement or liquidation of the representation now enjoyed by smaller member countries, some of those who have been founder members of the ADB such as Sri Lanka. The Non-Regional Members indicated their willingness to consider an expansion of the Board only if the number would be increased by two or more seats so that the present balance between borrowers and non-borrowers and between Regional and Non-Regional countries would not be disrupted. However, it was felt that the entry of a large regional member with a vast population certainly would justify an expansion of the Board, but this matter is yet to be solved.

Before the conclusion of the Meeting, the Board of Governors agreed to accept the invitation of the Government of Japan to hold the 20th Annual Meeting in Osaka next year.