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Regional Development Banks

John White

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International institutions are playing a rapidly growing role in the provision of development finance for the countries of the Third World. The rich countries have allocated increased resources to them, and have in many cases taken the views of these institutions into account in their own 'bilateral' programmes. They give as the reason for this tendency towards 'multilateralism' the desirability of freeing development finance from the political interests of the countries which provide it. Multilateral agencies are said to have the advantage of being 'non-political'.

In the poor countries, one finds a different view. It is often argued that the mechanisms and institutions of international economic relations have remained effectively under the rich countries' control. According to this view, all that has happened is that the emphasis has shifted from the open use of the rich countries' power to a more subtle process of permeation, in which international institutions have to be seen as part of a pattern of relationships designed to keep the poor countries in a subordinate position, i.e. a pattern of 'neo-colonialism'.

In the 1960s, three new institutions were set up, outside the UN system, in which there was an explicit intention to give poor countries a greater say in the control of international development finance—the Inter-American, African and Asian Development Banks. Similar institutions were established for smaller groups of countries, also, but it was at the continental level that the poor countries' desire for their own insitutions, reflecting their own view of the development process, was most clearly articulated.

The demand of the poor countries for institutions more responsive to their own aspirations, essentially a political demand, is the central theme of *Regional Development Banks*. The study analyses the origins, structure and evolution of the three institutions, within a comparative framework designed to show why they responded differently to a demand which in each case was expressed in more or less similar terms. Although the three institutions evolved differently, however, it is argued that none of them has been significantly successful in shifting the balance of control in favour of the poor countries whose needs they are intended to serve. The main reason for this failure, it is suggested, does not lie in any conscious policy of neo-colonialism on the part of the rich countries, but rather in the nature of international development finance itself. All three are shown as having succumbed to pressures which militated against articulation of their polictical role, pushing them towards conformity with 'objectively' valid international norms. Only the Inter-American Development Bank held out against these pressures for any time, and this was made possible, not by any action of the Latin American nations, but by the unusual position in Latin America of the USA.

In a concluding chapter the study contains a set of recommendations for the strengthening of regional banks.

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Regional Development Banks

A study of institutional style

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Introduction

International agencies have their uses. Discriminating perception of these uses is impeded by two components of the environment in which such agencies operate.

First, the increasing interdependence of nation states causes internationalism in the conduct of foreign policy to be regarded as some sort of self-evident good. International agencies are, as it were, landmarks on the road to a rationalisation of international decision-taking. Critical analysis of their performance is thus inhibited by the need not to strike at the principle for which they stand.

Secondly, international agencies have in general been established, as their name implies, as *agencies,* i.e. as organisations capable of performing certain functions in the service of their clients. They were not designed to take on the broader functions that they have acquired, as vehicles for general trends in the conduct of international relations. More specifically, the UN system was not designed as an integrated family of institutions, capable of performing what is now perhaps its principal function, the conduct of relations between rich and poor countries. Operating in this area, some international agencies exhibit, not surprisingly, a number of well documented and recently much publicised inefficiencies—a proliferating bureaucracy, a proneness to faction, poor decision-taking capacity, and so on. Aware of these inefficiencies, but needing international agencies to perform certain functions which it is no longer fashionable to perform through the medium of national foreign policies, nation states, which are the agencies' clients, have difficulty in establishing clear guidelines for the rational distribution of tasks. Efforts are made to concentrate resources among the few agencies which appear to have achieved a relatively high efficiency, often with only rather sketchy consideration of the nature of the tasks to be performed, and the suitability of the institution in question to perform them.

Of particular relevance to this study is the widespread tendency to equate the case for increased internationalism in the transmission of development finance with the case for increasing the resources of a particular set of institutions, the World Bank group.

This study is focused on three institutions which constitute close alternatives to the World Bank group as sources of international development finance for the developing countries which are members of them. All three institutions resemble the World Bank in several important respects. The questions which the study poses, and seeks to answer, are:

What was the nature of the demand which required the establishment of these alternative sources?

To what extent was the nature of the demand reflected in the shape of the institutions that were created, and what other factors affected the way in which the demand was expressed?

To what extent do the institutions in question have a capacity to evolve in response to the demand, and what other factors shape or inhibit the pattern of this response?

As originally conceived, the study was also intended to answer a fourth question: what measures are necessary to strengthen regional development banks as agents of the development process in the regions that they serve? For reasons which need to be indicated here, that question is only partially answered in the concluding chapter.

The study makes little attempt to assess these institutions' relative efficiency. At an early stage, an assumption was made that the case for establishing alternatives to the World Bank did not rest on any widespread feeling that the World Bank was inefficient, and that relative efficiency, therefore, could not be the primary criterion for their appraisal. It was possible, of course, that the developing countries which played a significant part in the establishment of regional development banks simply wanted additional channels for the flow of multilateral finance—choice for the sake of choice—for reasons very similar to those which drove numerous developing countries which were largely dependent on a single source of bilateral aid, in the late 1950s and early 1960s, to mitigate this dependence by encouraging the interest of other donor countries. On the basis of a preliminary survey of the evidence, however, it seemed reasonable to suppose that the motive force behind the creation of regional banks was more precisely aimed than that, and that the approach implicit in the questions set out above, focusing attention on the demand and the response, would yield instructive results.

In this approach, the demand for an alternative to the World Bank is taken as the starting point. The study does not ask whether this demand was in some sense well or ill founded. It simply records the existence of the demand and analyses its nature.

In recording this demand, one inevitably takes the World Bank as a reference point. Implicitly, the study does make comparisons. It needs to be emphasised here, therefore, that the purpose of the study is not to appraise the World Bank, or even to arrive at an assessment of regional banks *by comparison with* the World Bank. Implicit conclusions concerning the World Bank are largely incidental. They are relevant only because the existence of the World Bank figured large in the minds of those who created regional banks, and of those who have been responsible for their subsequent evolution. What is attempted here is a rather narrowly focused examination of the extent to which regional banks have succeeded in providing the escape hatch from the UN system which developing countries feel, rightly or wrongly, that they need.

The conception of such an approach arose from an earlier study of the co-ordination of bilateral aid, in which attention was focused on the role of the co-ordinating agency.[1] In case studies of the consortia for Pakistan and Turkey, comparisons were made between two institutions which have been used for the co-ordination of aid at the country level, the World Bank and the Organisation for Economic Co-operation and Development. The difference in the approaches of these two institutions seemed to be largely attributable to the fact that one of them was an operational agency, required to take an initiatory stance in order to implement its own lending programme. Thus the World Bank, which was then—and still is—the institution with the most extensive experience of the operational co-ordination of bilateral aid, appeared to be the better placed of the two for the purpose of identifying necessary policy changes. At the same time, it was noted that the World Bank was to some extent constrained by the nature of its own institutional interests. In particular, it seemed incapable of resolving the tension inherent in the underlying inequality of the relationship between rich and poor countries. Paradoxically, the World Bank, as an institution held in high esteem by rich countries, was more successful in securing policy changes in poor countries than in the rich countries which financed it and which were, in a limited sense, its principal clients.

Those conclusions explain the implicit comparison with the aims and methods of the World Bank which underlies much of this study. At the time when the former study was in progress, there existed for one region of the developing world a conspicuous alternative to the World Bank as a source of development finance within a multilateral framework, the Inter-American Development Bank. This institution had been at some pains to identify and claim for itself aims and methods which differed from those of the World Bank. That is to say, it identified a different demand which called for a different response. In particular, it appeared to be much more explicit in its emphasis on its role as the representative of the interests of the developing countries among its members. In terms of structure, the conspicuous feature which differentiated the Inter-American Development Bank was the majority voting power held by developing countries on its board.

It seemed reasonable, therefore, to advance a preliminary hypothesis to the effect that the control structure of regional development banks would cause them, as a separate and identifiable class of institutions, to take the direct representation of developing countries'

1. J. White, *Pledged to Development: A Study of International Consortia and the Strategy of Aid,* Overseas Development Institute, London, 1967.

interests as one of their principal and most explicit functions, while retaining most if not all of the advantages which accrued to the World Bank by virtue of its status as an operational agency disposing of a significant volume of resources. As work progressed, it became clear that this hypothesis could not be sustained. The differences between the three institutions were at least as significant as the differences between all three of them and the World Bank. Indeed, it became increasingly difficult to identify common features by which a clearly defined class of institutions called 'regional banks' could be identified, and for a while the possibility was considered of writing three separate studies of institutions which appeared to differ so sharply that comparative study would not be useful.

The nature of the demand, however, appeared to be relatively consistent. In proposing the establishment of regional banks, the governments in question *thought* they were calling for institutions within a clearly identified class, and the reasons for calling for such institutions, as reflected in the preparatory negotiations, hardly varied—at least on the developing countries' side. It was the response that varied. These variations appeared to be attributable to factors of three main kinds. First, the three regions differed sharply from each other in their internal characteristics and relationships, requiring different institutions to perform essentially the same function. Secondly, the developed countries' interests, especially their political interests, differed from one region to another, and this affected their degree of commitment to regional institutions. Thirdly, in synthesis of the first and second factors, there were variations in the interactions between the ways in which the need for such institutions was seen by the developing countries which established them and by the developed countries which were ultimately going to have to provide the cash. Here was a basis for comparative study, providing explanatory answers to the first three of the questions set out above. But it was not an adequate basis for answering the fourth question, since that is a question for which no answer exists that is applicable to regional banks as a class. It can only be answered on a case-by-case basis, in relation to each of the three institutions with which this study is concerned.

As a result of these changes in the shape of the study, it has taken very much longer to produce than originally intended. In expressing my gratitude to those who have contributed to its appearance, therefore, I must start with Antony Tasker, the Director of the Overseas Development Institute, whose patience and understanding during a difficult period encouraged me to go on with an enterprise which otherwise might have been abandoned. Among my former colleagues at the Overseas Development Institute, I also have particular debts to Dr. T. Soper, who as Director of Studies sometimes had to perform

a difficult mediatory role, and to Andrzej Krassowski and Gavin Osmond, who at various times had a crucial effect on the development of the underlying argument; and I owe special thanks to Gwendolen Thurlow, who had the tiresome task of converting my re-drafts into a presentable manuscript.

A study of this kind is impossible without the full co-operation of the staff of the institutions that are being studied. Information was very freely given by all three institutions; all were most generously hospitable when I visited them; and all continued to take time and trouble to give me further information and to correct my mistakes even after they had seen my preliminary conclusions, with some of which they disagreed very strongly. In the African Development Bank, my understanding was, I hope, enhanced by many long conversations with Mr. Mamoun Beheiry, then its President. In the Inter-American Development Bank, Dr. Pedro Irañeta, Director of the Economic and Social Development Division, ensured for me a particularly fruitful visit to that institution. In the Asian Development Bank, Mr. P. S. Hariharan, Chief Information Officer, provided me with much invaluable documentary material, in addition to answering queries and making it possible for me to meet other officers of the bank.

If I single out these three, whom I came to regard, in effect, as my hosts, I do not mean in any way to under-state my debts to many other members of the staff of the three institutions, who may recognise what I have drawn from my meetings with them in the pages that follow.

I am also in debt to several officials of the World Bank, though the conventions that apply in such cases prevent me from naming them, who commented on the drafts. They had a difficult task, commenting on a study of institutions with which the World Bank itself has affinities, and which to some extent constitute rival claimants on the developed countries' resources. The task was made more difficult still by the underlying comparison with the World Bank, which is by implication, and sometimes explicitly, critical of the World Bank's perception of its own role. They will see, I hope, that many of the points they made have been taken into account, and will take this as a measure of appreciation of the trouble that they took.

Others who commented on the draft, or who discussed the study with me, or who added a few more pieces to the jigsaw, are too numerous to mention. I would only add a final word of thanks to my present colleagues at the Institute of Development Studies, at the University of Sussex, who provided a fresh environment, and suggested some new perspectives, within which to reorganise an argument that seemed to have disintegrated.

I suspect that in spite of all these efforts on the part of others the study is still not free of error on points of fact. To some extent, that

is a necessary risk that one takes with material of this kind. Officials may identify errors, but not be in a position to say what the truth of the matter was; or one may have to weigh conflicting statements, without access to the documentary material which would be needed for corroboration. In such cases, if some reference to the events in question is necessary to the analysis, one has to weigh probabilities. The responsibility for getting those probabilities wrong remains my own.

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1 The Demand and the Response

1 Appraising Multilateral Agencies

At conferences on the subject of aid to developing countries, there is likely to be at least one paper the title of which contains the word 'versus'. Issues are presented in terms of choices between contrasted alternatives, often with absolute preferences expressed for one alternative rather than the other. The issues in question, which thus presented are misleadingly oversimplified, will be familiar to anyone who is conversant with the literature of aid. The hardiest of them is the issue of multilateral *versus* bilateral aid.

Bilateral aid is aid given directly by one country to another, without passing through a multinational intermediary. Multilateral aid, under the most precise definition of the term, is a transfer of resources both the collection and the distribution of which are determined by the binding collective decisions of the group of countries involved. Also, under the most precise definition, this group of countries must include more than one net provider of resources and more than one net recipient of resources.

Under these definitions, bilateral and multilateral aid are mutually exclusive categories, but they are not exhaustive. In between the two lies a whole range of degrees of collectivism in the control of resources. These variations are reflected in the structure of the international institutions which administer the resources in question. Such institutions are known as multilateral agencies, but the resources which they collect and distribute seldom conform fully to the strict definition of 'multilateral aid' given above. There are wide variations, all of which involve some departure from full multilateralism, in the distribution of effective control between net providers of resources and net recipients, in the distribution of effective control between the larger providers of resources and the smaller, and in the extent to which the agency itself enjoys an autonomy which insulates it from the competing pressures which these controlling voices express. At the extreme, a multilateral agency may in effect be hired by a bilateral donor to administer a part of its aid programme for it, a situation in which the role of the multilateral agency is virtually indistinguishable from that of the semi-autonomous state agencies or private institutions which some aid donors employ for the same purpose. There are several reasons why the government of a developed country might favour a multilateral agency for this role. In the case of the US aid programme, for instance, the dominant reason, as stated explicitly in numerous Congressional hearings, is the need to avoid the political embarrassment which can arise if the link between general aid policy and specific allocations is too direct and too visible.

The most significant departures from the concept of multilateral aid, however, are to be found, not in the extent to which agencies act on behalf of particular donors, but in the extent to which, in seeking to insulate themselves from that requirement, they develop or are granted some measure of autonomy. At the global level, the realisation of the concept of multilateral aid under the strict definition given above would require an elected authority with supranational powers to raise resources, e.g. through an international taxation system, and to distribute them. Short of the creation of such a structure, which would begin to look remarkably like a system of world government, countries wishing to establish a usable multilateral agency are faced with a dilemma. If adherence to the decisions of the agency remains voluntary, it is likely that positive collective decisions will only be taken within a relatively small and homogeneous group of countries, with a clearly defined common interest. At the global level, the need to secure consensus and collective commitment, on a basis of voluntary and equal participation, is an obstacle, sometimes an insuperable obstacle, both to the taking and to the implementing of decisions. The relative harmony of view achieved in the former Organisation for European Economic Co-operation, for instance, does not provide a useful model for effective decision-taking in the United Nations system. At the latter level, it is necessary to switch the emphasis from control mechanisms, which act primarily as a useful brake, to organisation and procedures, which determine the degree of momentum that an agency will generate.

A multilateral agency, if it is to operate effectively, needs to develop clear criteria of its own for decision-taking, so that its operations are not brought to a halt by the impossibility of getting agreement in detail on each separate issue from a large group of countries on a case-by-case basis. In developing its own criteria—and it is here that the dilemma becomes uncomfortable—a multilateral agency inevitably weakens the control exercised by its members. It comes to resemble more and more closely the individual agencies of the larger bilateral donors. Far from providing a multilateral framework within which the transfer of resources may be governed by common criteria, which was the model the dim outline of which seemed to be emerging in the 1950s in the OEEC, it constitutes yet one more independent entity with which the recipients of aid have to negotiate. It may be true that the new entity will operate in some sense more efficiently than the existing bilateral agencies, but in the nature of the operation that is unlikely to be how the recipients of its resources see it. If a multilateral agency produces a manual of project appraisal, for instance, prospective borrowers are likely to regard this manual, not as a textbook for maximising the rate of return on resources invested, but as evidence of what one has to prove if one is to extract resources from the agency in question, just as one may have to prove something quite different in order to extract resources from some particular bilateral donor. Once one knows what has to be proved, it is often not very difficult to prove it, provided one is prepared to take the trouble.

This tendency towards autonomy in multilateral agencies can be summed up in one sentence. There is a direct conflict between the concept of multilateral *aid* and the conditioning factors which govern the behaviour of multilateral *agencies*.

Just as the control mechanisms of multilateral agencies are bound to be less than fully multilateral in character, so bilateral aid is at least likely to be affected by the international context in which it is given, and thus to exhibit some of the features of multilateralism. During the 1960s, a steadily increasing proportion of bilateral aid was administered within some kind of framework of international co-ordination, whether at the level of global policy, or of regional strategy, or of annual aid programmes for individual recipient countries, or of single projects involving more than one donor. At each of these levels, both the providers and the recipients of aid have tended, even if hesitantly and incompletely, to adopt international norms.

Admittedly, the trend towards multilateralism in bilateral aid is heavily qualified. While international norms are accepted as negative constraints—or prohibitions of certain damaging practices—there is little sign of a more positive adoption of a binding collective strategy, with common objectives, under a common command, and implemented by means of a rational and systematic distribution of responsibilities. The ritual of what used to be called 'the common aid effort' continues to be a little unreal. Neither the donors nor the recipients are completely honest about their intentions. It is a sort of game. But at least it is a game the rules of which have come to be more or less clearly defined.

With these two trends—the acceptance of common norms in bilateral aid programmes and what might be described as the balkanisation of multilateral agencies—it becomes less and less easy, and less and less important, to differentiate a single class of institutions by the use of the term 'multilateral'. Clearly, there are degrees of multilateralism, and the degree of multilateralism in any particular item of aid is only partially determined by the nature of the institution which administers it. At one extreme, aid to a dependency from the metropolitan power is almost completely isolated from the international framework, showing distinct affinities to aid from a central government to backward regions or provinces within the nation state. At the other extreme, global issues such as the reform of the monetary system or the granting of generalised trading advantages to developing countries can be essentially multilateral in character, in the full sense of possibly requiring binding collective decisions. In the range in between, which is the range within which multilateral agencies operate, there is no clear dividing line. In addition to variations in the degree of multilateralism in the decision-making process, there are variations in the geographical scope of such agencies' operations. Is the European Development Fund, a 'multilateral' agency narrowly focused on the former and present dependencies of France, with an ex-Belgian penumbra, more multilateral in character than the India Consortium, focused on one country, but a country of continental dimensions, in which 'bilateral' aid accounts for 80% of the total, but supervised by an agency with global interests?

To state the diversity of multilateral operations in these terms, and to emphasise the degree of overlap with operations which are normally regarded as bilateral, may appear so obvious as not to be in dispute. Yet the obvious conclusion of these obvious statements is not always drawn. In particular, multilateral agencies continue to base their case for increased allocations of resources on generalised statements of the virtues of multilateralism, undifferentiated in terms of the particular functions of particular institutions. The nearest they come to such a differentiation is to claim superiority on some single, but usually not explicitly stated, scale of merit. The World Bank, for instance, lays claim to superior 'efficiency', though it is difficult to understand how efficiency can be measured until there has been a rather more refined discussion of objectives than has yet taken place in discussions of international aid. Explicit in this is the claim of superiority over bilateral donors, whose efficiency is impaired by 'political' interests; implicit is the claim of superiority over other, but unnamed, multilateral agencies, whose efficiency is impaired by negative control mechanisms and by excessive bureaucratisation. The UN Development Programme, the central point for the allocation of development funds to agencies within the UN system, claims superiority in the sense that an extension of its influence would improve the efficiency of the agencies in question.

In presenting choices in these terms, multilateral agencies exhibit a rather complex confusion of the criteria by which their performance has to be assessed. At the centre of this confusion is a failure to distinguish between the meaning of the word 'multilateral' in the context of multilateral aid and the meaning of the word as used to identify multilateral agencies. The agencies are claiming for themselves, by association, the virtues inherent in the ideal of multilateral aid. It is argued here, not only that they inevitably fall short of this ideal, but also that they do not necessarily even represent the closest approximation to the ideal that is to be found in the present structure of aid, and that to some extent they tend to constitute obstacles to the ideal's fulfilment.

This primary confusion gives rise to two further confusions. Falling short of the ideal, they need additional arguments in order to substantiate their claim to superiority. In the two examples given above, the additional arguments are couched in terms of efficiency. Such arguments, in turn, rest on an assumption that the objectives of development policy are given, and that the selection and attainment of objectives can therefore be objectively assessed on a scale which has universal validity. *Prima facie,* this assumption looks highly suspect; and if empirical evidence is required in order to refute it, one has only to look at the chronology of fashion in the objectives of international programmes, from economic growth to nutrition to employment (with many other intermediate preoccupations), to see that the assumption is belied by the record of the multilateral agencies themselves. If they were to drop the assumption, however, they would have to abandon the conveniently simple and universal scale on which their own superiority can be measured. Their natural reluctance to do this confines them to a very constricted perception of the nature of the development process. Most multilateral agencies, for instance, claim that their operations have the 'advantage' of being free of political considerations. If all that is meant is that institutions do not have foreign policies in quite the same way as national governments, then it is a truism. If anything more is meant, then it is false. Quite apart from the patent absurdity of characterising the UN system as a non-political system, it is reasonable to ask what kind of a frame of reference it is, and whether it is an 'advantageous' one, that can exclude the political content of choices in development policy. 'Political', admittedly, is a word which is often very loosely used. Here, it is used to refer to two broad areas of social structure and process: first, the framework of society, the complex network of interrelations between groups which determines the nature of bargaining processes and their outcome; secondly, the evolution of the value base, or aspirations, on which that framework rests. In both of these broad senses (and in the third sense, in which the word is used in the context of international relations), the operations of multilateral agencies are likely to have a significant, though seldom crucial, political impact. The prevalent inhibitions which prevent them from debating the nature of this impact render it more difficult for them to identify with any precision the political role that their clients require them to play, or, to anticipate the argument developed below, to define the narrower and more precise use of the word 'political' which is appropriate, indeed necessary, to an appraisal of their performance.

The confusion between multilateral aid and multilateral agencies, in addition to impeding the identification of the agencies' collective role, can be seen as an impediment to the rational division of labour. At the popular level, there is the familiar phenomenon of the proponent of multilateralism who will defend almost any multilateral agency when comparing it with bilateral programmes, while the same person, when comparing the same agency with another multilateral agency of superior standing, will criticise it in such terms as to leave the impression that there is no justification for its continued existence. Conspicuous recipients of this double treatment have been the Food and Agriculture Organisation (FAO) and the UN Educational, Scientific, and Cultural Organisation (UNESCO). The tendency of some agencies to claim superiority over each other has already been noted. One may also note in passing the acute problems of inter-agency jealousy and lack of co-ordination which have been analysed, for instance, in Sir Robert Jackson's *Capacity Study* of the UN system.

Underlying these well known problems is an assumption of singularity. Agencies assume that they are part of a system which represents a unique approximation to the ideal of multilateral aid. From there it is an easy jump, though an equally invalid one, to the assumption that each agency constitutes a unique component within this supposedly unique system. The case for multiplication is ignored. It is easy for the World Bank, for instance, to equate the case for an increased allocation of development finance on concessionary terms through multilateral agencies with the case for increasing the resources of its own soft-loan affiliate, the International Development Association (the IDA). But the IDA is only one of several multilateral channels for such resources, and the case for allocating resources to this institution instead of others needs to be argued, though it seldom is, in terms of the specific functions which this particular institution is required to perform, and of its *relative* suitability for such a role. A rationalisation of the multilateral agencies may well require an increase in their number, and at different levels, rather than, as is commonly supposed, their unification under consolidated control.

In order to appraise the utility of multilateral agencies, what is required is not an answer to the question whether the hypothetical ideal of multilateral aid is in some indiscriminate and unqualified sense 'better' than bilateral aid, but rather a precise identification of the context in which particular institutions operate, the role which they are required, in that context, to perform, and their capabilities in relation to the tasks laid upon them. Only thus can one avoid the untenable position in which the cruder proponents of multilateralism find themselves, in which the subsumption of a particular institution under the class of multilateral agencies is sufficient to justify it, irrespective of its observed record. Analysis in these more discriminating terms would also act to some extent as a corrective to the undesired side-effects of the natural and in their own terms legitimate tendency of multilateral agencies to seek to protect themselves by means of an increase in their autonomy. Even if the present principles of allocation effectively favour the institutions best placed to serve their members' interests—and it could reasonably be argued that this is so—more discriminating analysis is needed in order that member countries may make the best use of the institutions which they happen to have.

For any international institution, other international institutions are a part of the context in which it operates, but only a minor part. The relations of multilateral development agencies with each other as a class are less important than their relations both with the developed countries which provide bilaterally the bulk of world aid and with those other countries the development of which both multilateral aid and bilateral aid are intended to promote.

Multilateral agencies stand in the middle ground between these two sets of countries. Aid is given on the basis of a rather loose assumption that the development of the world's poorer countries is in the long-term interests of richer and poorer alike. While this may be generally so, it is most unlikely, in fact plainly not the case, that the interests of rich countries and poor countries invariably coincide. In formulating a framework for the study of multilateral agencies, therefore, the word 'versus' properly appears in a different context from that which was cited in the first paragraph of this chapter. There are issues to be resolved in which it is realistic to think in terms of developed *versus* developing countries. An important function of multilateral agencies is to identify areas in which conflicts of interest may arise, and to seek their amelioration. Given that the foundation stone of the case for multilateral agencies is the need to redress imbalances in the distribution of power or of resources among nations, this amelioration should in general be in favour of the weaker of the two groups, i.e. the developing countries. At the same time, where there is a genuine community of interest, multilateral agencies may help to render that interest more effectively served. A distinction may be drawn here between the *framework* which is implicit in the ideal of multilateral aid and the *nucleus* which is what the existing multilateral agencies provide. A multilateral agency is essentially a point of attraction, around which existing forces may be arranged in a systematic pattern. Its role is to balance these forces, tilting, where necessary, towards advocacy of the weaker force.

That crucial function is difficult to perform. No multilateral agency is fully autonomous, or so unencumbered as to be fully effective as a mediator. To the extent that it approaches autonomy, it is likely to develop interests of its own which may compete with the interests of the countries that it serves. To the extent that its autonomy is constrained, it is likely to reflect in its control structure those very imbalances that it is intended to redress. In any assessment of an institution's capacity to perform the functions of a multilateral agency, therefore, one feature which has to be given close attention is the way in which the interests of developing countries are represented. Clearly, it is insufficient that developing countries should have their interests represented through the power of a vote. Indeed, control through majority voting power may render an agency *less* effective in serving the developing countries' interests, by reducing its capacity to take clear decisions. What is required is a mechanism, not for passing resolutions in which the interests of developing countries are declared, but for implementing a policy by which those interests may be served.

Thus, two questions have to be asked at an early stage in any study of a multilateral agency. First, to what collections or networks of national interests is it related by virtue of its given function? Secondly, in what ways is it likely to perform or to depart from the function which thus falls to it? In other words, what is the nature of the demand which it exists to serve, and what is the probable range of its response?

The demand will always contain a functional element, an expectation that the institution will perform certain tasks in certain fields. This functional element is supposed to be predominant, for instance, in most of the agencies of the United Nations, which are differentiated from each other, in principle at least, by the definition of their sectors of operation. But demand may also contain a geographical element, an expectation that the institution will in general terms serve the interests of a particular and limited group of countries which make up a part or the whole of its membership. Equally, different groups may all expect the institution to serve their interests, even when the interests of one group are inconsistent with those of another.

It is in this latter area, of less precisely defined demand, that variations in the responses of different types of agency are likely to become most marked, and it is here that the case for a diversification of agencies, possibly with overlapping functions, has to be assessed. The response will be partially determined by formal control structures. Other factors, however, are likely to be at least as significant—the composition of the agency's staff, the relative strengths of different types of appeal in attracting additional resources, the historical circumstances of its creation, and so on. Clues to the way in which such factors affect decision-taking will be found, not only in an analysis of operational decisions, which may yield over-simplified conclusions derived from untested assumptions about the agency's role and the impact of the performance of that role, but also from a mass of more particular evidence of the conceptual framework within which decisions are taken—speeches by the head of the institution and his staff, the tenor of reports, surveys and technical assistance allocations, especially those in which the ratio of expected public impact to financial cost is high, unwritten conventions concerning behaviour in the governing body or board of directors, and numerous other indications of the way in which an institution relates its own limited operations to the wider context within which these operations take place. We shall refer to this process of relating, the way in which an institution sees and seeks to act upon events outside the immediate sphere of its own operations, as its 'style'. An understanding of style is crucial to an understanding of what an institution is trying to do, how it is likely to try to do it, and how it will select where and when to do it and where and when not. The concept of style is crucial to the structure of this study.

2 Regional Identities

A regional institution is one in which the demand to serve particular interests is expressed in the form of a restriction which explicitly confines operations or eligibility for membership, or which attributes a special status within the membership, to countries within a limited and defined geographical area. In most cases, the area in question will be one which already has some sort of regional identity, perhaps reflected in the existence of other institutions serving the same group of countries in different capacities. Indeed, the case for establishing a regional institution may rest on the belief that the area has particular characteristics which give it a basis of unity, which distinguish it from other areas, and which require specially designed institutions to serve the area's needs. Equally, the sense of regional identity may be weak, and regional institutions may be established in order to strengthen it. Thus a regional institution may both shape and be shaped by the region that it serves. To the extent that this is so, the institution will differ from institutions set up to meet similar *functional* demands, under the distinction made in the preceding section, in other regions of the world. To the extent that this is not so, the case for setting up a regional institution, or indeed any institution at some particular level rather than another, instead of employing the larger resources and greater experience of existing institutions, including institutions at the global level, is weakened.

The crucial concept here is that of the geographical area, or region. All international institutions are to some extent restricted, either in their membership or in their area of operations. Apart from the fact that nations may choose not to join particular institutions, some institutions have a formal condition of membership, which excludes certain countries. Membership of the World Bank, for instance, is conditional on membership of the International Monetary Fund. Some institutions exist to serve countries of a particular type, e.g. countries exporting the same commodity. And some institutions are offshoots of international communities which are not regionally defined, e.g. the institutions of the Commonwealth. Institutions of these kinds are not regional, because there is no region to which they correspond: but the third type, agencies of non-regional communities, has many affinities with regional institutions. As a special case of this third type, there is the European Development Fund, which is regional in the sense that it is an agency of a regional organisation, the European Economic Community, and partially regional in the sense that a large part of its resources is used in a group of states which have some regional cohesion, in francophone Africa, but unlike other regional institutions in that the 'region' of its membership and the 'region' of its operations are mutually exclusive.

Those two examples of regional identity, the EEC and francophone West Africa, illustrate an obvious problem in the equation of the concept of a region with the concept of a geographical area. Neither 'region' includes all the countries in the geographical area over which it stretches. What, then, are the particular characteristics of a 'region' which distinguish it from other kinds of international community? Can these particular characteristics, if they are identifiable, be translated into particular demands which are served by regional institutions and not by non-regional institutions? What is the force of regional interests, and how do these interests relate to other national and international interests? What is it, in the concept of regional identity, that justifies the establishment of institutions under a regional title? In short, can we define 'region' in such a way as to indicate prescriptive guidelines by which one may determine at what levels, and over what areas, regional institutions may usefully be established?

First, it is clear that the equation of regions with geographical areas needs to be modified. A group of countries linked by a set of agreements or an organisational structure will normally be regarded as a region if the name which refers to the group includes a geographical expression which applies to all the members of the group, though it may also be applicable to other countries which are not members of the group. Further, membership of the group should in principle be open, on fulfilment of conditions of varying degrees of stringency, to other countries to which the geographical expression is applicable, but not to other countries. If membership of the European Economic Community, for instance, were not available on any terms to other European countries which are not members at present, or if membership were in principle open to non-European countries without distinction, one would want to argue either that it was not a regional organisation or that the region which the organisation serves is wrongly named.

While this test is useful for the identification of regions, it will not serve as a definition, for it would lead to the awkward conclusion that an area cannot be a region unless it has a name. Such a conclusion cannot be maintained. The countries of the Entente (Ivory Coast, Upper Volta, Dahomey, and Niger) constitute a region, for instance, although it is a region without a geographical name. At the same time, it is necessary, if one is to answer the questions posed above, to avoid going to the other extreme, applying the term 'region' to *any* geographical area or group of countries within an area, since that would be prescriptively useless.

To the concept of the geographical area, therefore, must be added the concept of identity, which was introduced without explanation at the beginning of this section. Identity has two aspects, exclusive and inclusive. The exclusive aspect can be very powerful. Scots, for instance, tend to formulate their identity in terms of resistance to absorption by the English. But Highland Scots distinguish themselves from Lowlanders, West Highlanders distinguish themselves from other Highlanders, and so on down the scale.

The force of exclusive sentiment will vary between levels. The degree of variation is determined by two factors. The first is the extent to which those excluded are regarded as a threat by those who are included. The Scots, for instance, see the English as a threat in that England is competing for, and on the whole successful in obtaining, the lion's share of resources. But the second factor, which is crucial to the viability of the institutions which express the identity in question, is the extent to which those who are included have, or can be made to have, interests in common—i.e. the strength of the inclusive aspect. The point may be illustrated by the familiar phenomenon of the disintegration of nationalist movements after independence. The exclusive aspect of identity is sufficient to hold the movement together so long as the threat lasts, but the inclusive aspect of identity does not have sufficient content to give the movement a continuing function once the threat is removed. National unity in wartime, or the deliberate identification of external enemies as a means of promoting national unity, are similar reflections of the exclusive aspect of identity.

Regional identities in international relations, like other identities, can be established at different levels. What is a region at one level, e.g. West Africa, is a sub-region at another. In general, regions identify themselves by exclusion, in the form of a consciousness of, or the desire to establish, a line of demarcation between members of the regional group and the rest of the world. But the strength of the institutions which a region thus defined creates will be determined largely by the inclusive aspects of identity, a consciousness of common characteristics, common interests, and a pattern of functional relationships which is bounded by the limits of the region in question.

If the term 'region' is to have a prescriptive application, therefore, it must be used to refer to geographical areas, or groups of countries within an area, which can identify themselves with each other both exclusively and inclusively.

Developing countries are usually loosely identified as the countries of Africa, Asia, and Latin America, with the two specific exceptions of Japan and South Africa. The developing countries collectively do not constitute a region. They do not have an inclusive identity. If one ignores the distinction between developed and developing countries, it is difficult to identify any other respect in which the developing countries have common characteristics and interests, i.e. an inclusive identity, which are not shared by at least some developed countries. There are some so-called developed countries which have lower *per capita* incomes, more uneven income distribution, etc., than some so-called developing countries. Conversely, their exclusive identity is an identity of *self*-exclusion, i.e. it includes all countries which are excluded from the group of developed countries. The developing countries hardly operate as a group except in confrontation with the developed countries.

Similarly, in terms of political alignments, the Afro-Asian countries constitute a group which identifies itself almost wholly by exclusion, and which is therefore always referred to as a 'group', not a 'region'.

The largest unit of developing countries to which the term 'region' can be applied, under the definition used here, is a continent. Africa, Asia, and Latin America, each consisting almost wholly of developing countries, constitute three regions, in the sense that their exclusive identities, or self-definition by reference to the rest of the world, are sustained and given content by corresponding inclusive identities, or awareness of common characteristics, interests, and functional relationships. These are the largest identifiable 'regions' in which developing countries are dominant. In other words, the African, Asian, and Latin American regions are the largest units within which developing countries can establish institutions to meet their own demands without coming into competition with the demands of the developed countries. Multilateral agencies established at this level, therefore, are likely to be of crucial significance in resolving the dilemma identified in the preceding section as the principle obstacle to the performance of a mediatory role. Institutions at this level do not have to seek autonomy in order to be effective in serving the interests of the developing countries among their members, since *prima facie* the need to serve those interests and the need to serve their members' interests both pull in the same direction. One would therefore expect such institutions to be more sensitive than institutions at the global level to developing countries' actual demands, as distinct from what the institution thinks those demands ought to be, and in particular to be more sensitive to the political necessities of the context in which they are operating. At the same time, since they represent the largest possible institutional aggregation of developing countries' interests, one would expect such institutions to constitute exceptionally powerful advocates of those interests in relations with countries outside the region, and particularly in relations with developed countries. At any higher level, and most conspicuously at the global level, articulation of the interests of developing countries is bound to be constrained, either by a control structure which realistically reflects the developed countries' superior strength, or by a control structure which artificially gives equal weight to conflicting but unequal interests, to the detriment of decision-taking, or by some measure of insulation of the institution from the demands of developed and developing countries alike.

Multilateral agencies at the regional level can thus be distinguished from multilateral agencies at the global level in the nature of the demand that they exist to serve. Even when non-regional countries, including developed countries, are admitted to membership, such countries are less likely at this level than at the global level to see their own vital interests at stake, as the regional members are bound to do. If the agency is one which is not directly involved in mobilising the resources of non-regional countries, they may be content with observer status. They are likely to seek greater participation in decision-taking if they are required to put resources into the agency, but even then they will be subject to political constraints arising from the special status accorded to the regional members. In any community, admitted members cannot behave with the same freedom as members who belong to the community by right.

For a regional agency to acquire this crucial communal characteristic, however, there is a vital condition that has to be fulfilled. In order to respond effectively to the demands posed by the exclusive aspects of a region's identity—i.e. improvement of the region's position in relation to outsiders—a regional agency has to be able to give those demands some sort of definition in terms of the inclusive aspects of the region's identity. Demands for a larger share of the developed countries' resources, for instance, are unlikely to be effective unless they can be substantiated in terms of demands created or rewards offered by the region's internal structure. If the relationships of this internal structure are very weak, if it lacks real cultural, political, economic, or social coherence, then the region's institutions will be weak also. There is a set of linkages here on which regional agencies can draw. The force of economic necessity can be used to strengthen inadequate political coherence, or the presence of a strong political will may be sufficient to promote economic integration, or in the absence of both political and economic coherence nations may draw on a common cultural tradition to shape the institutions they need for their common survival. The Central American Common Market on balance exemplifies the first of those possibilities, while the moves towards economic integration in Latin America as a whole on balance exemplify the second. The third possibility is exemplified in the use of Malay cultural nationalism to overcome the differences between Malaysia and Indonesia. But if no common factor is present, if the inclusive aspect of regional identity has no content, then regional institutions lack the necessary foundations for their evolution.

Thus, although there is a *prima facie* case for expecting multilateral agencies established at the continental level to be crucial in the articulation of developing countries' interests, there will in practice be variations determined by the degree of internal coherence which Africa, Asia, and Latin America respectively possess. The regional identity of Latin America is clear, and almost certainly a stronger conditioning factor in the external attitudes of Latin American countries than the sub-regional identity of, say, the Andean states. At the other extreme, the content of the regional identity of Asia is not at all clear—what equivalent is there, among Western bureaucrats who are concerned with Asia, of the half-sympathetic, half-exasperated use of the term 'Latino' among Latin American specialists?—and it may well be that smaller regional units than the whole of Asia are needed if the demands of Asian countries are to be effectively articulated.

In their formal structure, regional institutions with similar stated functions vary surprisingly little. To take an extreme example, the regional economic commissions of the United Nations are formally identical in structural relationships and in hierarchical placing. Yet there are great differences between the ways in which the Economic Commissions for Africa, Asia and the Far East, and Latin America function. Superficially, these are differences of style, reflecting the different characteristics of their respective regions, but these stylistic variations are also functional, in that they are intended to *assert* the particular nature of the region in question.

The assertive function—the assertion of values, distinguishing characteristics, particular and exclusive interests, or whatever else is the basis of group identification—is a political function. It is a means of identifying one group in relation to other groups, either to validate a claim to resources which lie partly or wholly under other groups' control, or to consolidate control of the resources which the identified group itself possesses, using 'resources' in both cases in the widest possible sense. Regional institutions, which exist to serve or promote a pattern of group relationships, are necessarily exposed to political forces. At the global level, it was argued in the preceding section, there is a *prima facie* case for supposing that multilateral agencies will retreat from such forces, and will be inhibited from identification of a political role which would enable them to respond positively to the forces to which their own functions are related. At the regional level, there is a *prima facie* case for supposing that the opposite will be the case. Since the identity of the region has to be defined partly in exclusive terms, regional institutions will tend, in order to validate their own existence, to assert the nature of that identity, thus converting their political *context,* which global agencies see as a constraint, into a political *function,* which indicates potential areas of operation.

The identification of this political function, which can be broadly characterised as the assertion of regional identity, has a bearing on what has already been said about style. Whatever the purpose for which a regional institution is set up, there is likely to be a body of precedent on which the institution's creators can draw, derived from the experience of institutions already established with similar purposes at other levels or in other regions. The Inter-American Development Bank, for instance, was largely modelled on the World Bank, and the African and Asian Development Banks drew on the IADB's experience. The ways in which a particular institution departs from established practice, which will tend to be departures of method rather than of given purpose, coincide very largely with what is meant here by 'style'. The nature and extent of these departures will be determined by the way in which institutions or their creators see the particular needs of the regions that they serve. An institution's style is in effect its way of asserting regional identity. In other words, it is in its style that an institution performs its political function. Since this political function is the basis of the case for establishing institutions at one level rather than another, an assessment of style is thus crucial to any appraisal of a regional institution's utility, since it constitutes a major part of the institution's response to the demand which brought it into being.

3 The Demand for Regional Development Banks

The three institutions with which this study is concerned—the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank[1]—have at least two purposes which are common to all of them. These are, first, the mobilisation of additional external resources, either from governments or from the world's capital markets, and, secondly, the financing of projects which will contribute, not only to the development of individual member countries, but also to the integrated development of the region as a whole.

Similar stated purposes are to be found in the articles of other regional development banks, serving smaller regions or sub-regions. Equally, the stated purposes of the Asian, African, and Inter-American banks have several features in common with the stated purposes of the World Bank.[2] Apart from a tendency to focus attention on measures to promote economic integration, which is a difference of emphasis rather than a difference of basic function, the purposes commonly attributed to regional banks in their articles of agreement are by and large the purposes of development finance institutions as a class, rather than of institutions at the regional level.

These purposes, the mobilisation and allocation of development finance, reflect what has been distinguished here as the functional element of the demand for regional development banks. The difference between regional development banks and other development finance institutions lies in what was distinguished as the geographical element of the demand, the particular factors which call for the establishment of such institutions at the regional level. Thus, the position occupied by a regional development bank is determined by the intersection of two sorts of demand. On the vertical axis, as it were, there is what is essentially an economic demand for institutions which will mobilise resources for development and will apply those resources to projects yielding a high economic return. On the horizontal axis, there is what is essentially a political demand for institutions which will assert and strengthen regional identity. The first of these demands is the principal determinant of the formal structure of the institution. The

1. For brevity, these three institutions are hereafter referred to as the 'Asian bank', the 'African bank', and the 'Inter-American bank'. The use of initials is precluded by the coincidence of the two ADBs. Some writers refer to them respectively as the AsDB and the AfDB.

2. The term 'World Bank' should be taken throughout to refer to the International Bank for Reconstruction and Development (IBRD) and its soft-loan affiliate the International Development Association (IDA). Although in formal terms they are separate institutions, they share the same staff, and represent in effect two funds at the disposal of a single institution. The International Finance Corporation (IFC) operates as a separate entity. Where the IFC is included, the term 'World Bank group' is used.

second is the principal determinant of what will be expected of an institution with such a structure by the countries which it exists to serve. A bank, to put it at its simplest, is a bank. There are several features which it has to have—a capital structure so arranged as to serve as the basis for additional resource-mobilising capacity, allocation procedures, technical services, etc.—if it is to operate as a bank. Regional development banks, like other banks, have these features. In subsequent chapters it will be shown that there was little attempt at originality in the drafting of the articles of the Asian, African, and Inter-American banks, but rather a conscious search for precedents and models. The originality lies, not in the devising of a new formula, but in the application of an existing formula at a new level. This point needs to be very strongly emphasised. Regional development banks are not a new kind of bank. They are examples of an existing type of institution, which in the 1960s was used to meet a new and growing demand.

Because regional development banks have many of the features of development finance institutions in general, it is tempting to assess their utility exclusively in the functional terms appropriate to institutions of this class. From the point of view of developing countries, the case for regional banks is sufficiently proved by reference to their need for external capital, which in turn suggests that regional banks should be assessed by their success in mobilising resources. From the point of view of the developed countries, the case for regional banks is sufficiently proved by reference to the need for improved technical competence in the appraisal of projects, which in turn suggests that regional banks should be assessed by the rate of return on the projects which they finance, i.e. by their operational record. In subsequent chapters it will be shown that as mobilisers of resources the Asian and African banks have rather poor records, and that the greater success achieved in this respect by the Inter-American bank is attributable to special historical circumstances outside the bank's control. Similarly, it will be shown that there are at least impressionistic reasons for supposing that the operational records of the African and Inter-American banks compare rather unfavourably with that of the World Bank, while the Asian bank, which has put greater emphasis on technical competence in its project appraisal, has insured itself against 'failure' largely by adherence to World Bank procedures, thus undermining the case for its establishment as a separate institution.

While these criticisms, if substantiated, have some validity, they do not constitute a conclusive appraisal, since they leave out of account the geographical element of demand, the case for establishing development finance institutions at the regional level. This demand has four components, all of which have an important bearing on the functioning of such institutions. First, the functional element of demand is to some extent modified by the level at which it is articulated. A passing reference has already been made to the tendency of regional banks to emphasise economic integration, and it is argued below that there are other respects in which regional development banks differ inherently from other development finance institutions, irrespective of the particular regional contexts in which they operate. Secondly, the geographical element of demand, the performance of the assertive function which is part of what is expected of all regional institutions, has to be related to the particular structures and capabilities which regional banks possess. This tends to be seen initially as the assertion of the exclusive aspects of identity, a demand both for an increased quantity of external resources and of a greater power to determine the uses to which such resources are put. But it leads on, thirdly, to assertion of the inclusive aspects of identity, the identification of particular internal characteristics which distinguish the region in question as a coherent entity. The demand for the performance of this assertive function has a feed-back effect, fourthly, on the character of the functional demand, in the form of an expectation that the operational policy of the institution will differ in identifiable and specific respects from the operational policies of other development finance institutions.

Since these elements of the demand for regional banks suggest rather different guidelines for their appraisal from those which are commonly applied to development finance institutions in general, they need to be discussed in a little more detail.

On what has been characterised here as the vertical axis of development finance institutions as a class, regional banks occupy an intermediate position. Developed countries, looking for institutions through which to channel resources to developing countries, are likely to look first at the global level, where they can collectively retain a dominant influence over policy formulation. It is not merely the result of chronological accident, for instance, that the periodical replenishment of the resources of the IDA constituted the first call, in the late 1960s and early 1970s, on the attention of developed countries in discussions of the allocation of resources to multilateral agencies. This was the natural point at which to concentrate their efforts, and it would probably still have had first call even if other multilateral development finance institutions had been in existence for longer. Developing countries, however, wishing to retain control over the choice of projects to be financed, are likely to think first in terms of national institutions, which can be required to act in accordance with government policy. But the developing countries, also, want institutions which will mobilise external resources, so they have to move some way towards the level that the developed countries favour. It is the combination of these two requirements, the need for external resources and the need to retain control over their allocation, which constitutes the functional demand for the establishment of development finance institutions at the regional level.

Among regional banks, the Asian, African, and Inter-American banks constitute a special class, in that they appear to maximise both the aggregation of developing countries' interests and the capacity to mobilise resources in the service of those interests. That is to say, they come as close as possible to the resource-mobilising capacity of global institutions without sacrificing, and possibly even strengthening, the developing countries' capacity to control the use to which the resources are put. Even if they include developed countries among their members—so the argument runs—the massive aggregation of developing countries' interests, in an institutional context in which these interests will appear central while the interests of developed countries will appear peripheral, is likely to redress the unpalatable imbalance of power which is an inherent feature of relations between developed and developing countries in general. The nature of this demand suggests a need for a careful scrutiny of decision-taking procedures in such institutions, and of other aspects of the handling of the relationship between developed and developing countries within this particular institutional framework.

The expectation that regional banks at the continental level will be exceptionally effective as mediators between developed and developing countries may turn out to be illusory. In subsequent chapters, several cases will be found in which regional banks have run into difficulty in advocating too explicitly their poorer members' interests. But the existence of this expectation remains significant as a determinant of the place of regional banks on the horizontal axis of regional institutions. Since the principal function of regional banks is to dispose of resources, the assertion of regional identity in *exclusive* terms takes the form of a claim to greater regional autonomy in control of the use of resources. In other words, the creation of a regional bank is essentially an act of political resistance against the developed countries' hegemony in the world economy. This is seen most clearly in the history of the origins of the Inter-American bank, which is profoundly intertwined with the history of Latin American resistance to US dominance in the western hemisphere. It is also seen very clearly in the steps taken by the Inter-American bank to differentiate itself as markedly as possible, both in style and initially in operational policy, from the World Bank, and in the continued hostility between the World Bank and the African bank. That this hostility is less marked between the World Bank and the Asian bank is a sign of the latter's weakness, not of its strength, for the World Bank stands in this context as a symbol for much of what developing countries resent in the ordering of international development finance, and regional banks stand as a symbol for what developing countries sometimes characterise as the struggle against neo-colonialism.

There are two obvious anomalies in the nature of this demand. The first is that regional banks, being banks, require resources, and the resources in question are largely under the developed countries' control. Regional banks are thus dependent on the developed countries' good will if they are to acquire the means with which to perform that function of resistance to the developed countries' hegemony which is part of what is expected of them. The anomaly is not crippling. The history of the Inter-American bank shows that in certain circumstances it may be in the developed countries' political interests to give developing countries such an outlet, even in conflict with other policy interests, though the dimensions of the outlet are likely to be rather carefully defined. This appears to be the explanation of continued US support for the Inter-American bank, even in periods when it was out of line with other arms of US development policy in Latin America.

The second anomaly is perhaps more difficult to resolve. Since the nature of the functional demand for regional banks requires institutions of a particular type, the developing countries are liable to find themselves taking over an institutional model which was developed on different political assumptions. It is thus not clear that a regional bank is an appropriate instrument for the assertion of regional identity in exclusive terms. There is a possibility that the predilections which it acquires by virtue of its structure and functions will draw it, not into closer co-operation with other institutions at the regional level, but into attempts to identify itself with institutions at the global level with which it has greater intellectual affinity. If this tendency is observed, it has to be assessed as a sign that the regional character of the institution is imperfectly formed, or distorted by the adoption of an external model or vulnerability to external constraints.

The natural way of escape from these anomalies is to move from the assertion of the exclusive aspects of identity, as characterised in the preceding section, to the assertion of the inclusive aspects of identity. In subsequent chapters, repeated references will be found to the pressure on regional banks to find 'regional' solutions—i.e. characteristically African, Asian, or Latin American solutions—to regional problems. It is not always clear that such a solution exists, and it is only rarely that the problem to which the solution is addressed is peculiar to the region in question. But the expressed need to present problems in characteristically regional terms, and to find solutions which in some undefined sense express the genius of the regional culture, is not only clear, but also fundamental to the case for establishing institutions at the regional level.

The peculiar nature of this demand poses an awkward problem in terms of operational policy. At the macro-economic level at which multilateral agencies tend to operate, the striking feature of inter-regional comparisons is the extent to which they yield, not differences, but similarities. Some of these similarities—notably the organisational implications of operating in the world's principal export markets—are inherent in the situation in which developing countries find themselves. Other similarities arise, e.g. in the field of taxation policy, not from the situation in which developing countries find themselves, but from the limited range of instruments available for the resolution of widely divergent problems.

If it could be shown that regional differences in the nature of the problems to be resolved necessitated, in some 'objective' sense, different techniques for their resolution, the case for regional institutions would paradoxically be weakened, since it would be reasonable to suppose that these differences would be more clearly identified by an institution operating at the global level, within a framework of comparative study. The reason for this is that the range of techniques available is in fact rather limited. In choosing from a limited range of established techniques, in a situation in which it is assumed that there is one technique which is in some objective sense more appropriate than other techniques to the particular problem under consideration, what is needed is comparative experience as a guide to selection, and a global institution is more likely to have this experience than a regional institution. To put the point rather more sharply, a convincing demonstration that the World Bank was fundamentally wrong in its attempts to develop techniques of project appraisal which have global validity would greatly strengthen the case for a concentration of resources in institutions of global scope . . . such as the World Bank. In practice, however, it appears to be rather difficult to identify the differences which would give rise to such a conclusion. Admittedly, this is a broad and dangerous generalisation, but it is a generalisation which, it appears, most consultant economists would accept on the basis of their own experience. Problems do recur in strikingly similar forms in different parts of the world, a contention which is subject only to the proviso that the macro-economic level of policy formulation which is here under discussion may, in substantive terms, be the wrong level at which to make comparisons.

The fact remains that it is at the macro-economic level that policy decisions are taken. At this level, there is a need, if not to identify differences, at least to invent them, so that the proposed solution may acquire political weight in regional or national terms; hence the repeated references to 'regional' solutions, even by those who are most uncompromising in their application of globally established prescriptions. Further, even though problems, when analysed in isolation, may appear generic, these problems manifest themselves in particular political and social contexts which may require special *additional* measures to make the application of *known* techniques feasible. A conspicuous case is one of the institutions studied here, the Inter-American bank, which represents the *addition* of particular Latin-American features to an otherwise unmodified institutional model. If this is a correct analysis of the nature of the demand for regional development banks, the uncomfortable conclusion which follows is that there are no guidelines for the evolution of such institutions' operational policies. Confronted with familiar economic problems, they are required to develop an idiosyncratic style for the resolution of those problems, and style is a phenomenon which falls outside the discipline of economics, in which, necessarily, the staff of such institutions are trained. Essentially, the demand for regional development banks is an intellectual and cultural demand. It is a demand which requires the positing of an alternative to the westernised intellectual élite by which many developing countries are ruled, but which does not state the nature of the alternative that it is seeking. The function of a regional development bank is to invent that alternative, to play its part in the act of political resistance, or, more accurately, of political self-identification.

The instruments of invention which a regional bank is given are severely limited. It can identify characteristically regional problems, but in doing so it is likely to find itself operating at the periphery of the hard core of economic problems which most developing countries share. It can identify characteristically regional solutions to common problems, but in doing so it is likely to find itself vulnerable to the accusation that it is applying 'political' criteria, which will weaken its functional effectiveness as an agency for the mobilisation of external resources. It can attempt to strengthen the coherence of the region that it serves, through the provision of finance for projects which will rationalise the regional distribution of investment resources, but in doing so it will be inhibited by its functional unwillingness to proclaim its political role. It can advance claims on the developed countries' resources on behalf of the region that it serves, but the passion of this claim will be diluted by the need to retain the developed countries' good will. These are the dilemmas that a regional bank faces in its search for an alternative to congruence with the existing international economic order. They are also the dilemmas that are faced by all developing countries, when they seek external resources for the amelioration of their own condition.

2 The Asian Development Bank[1]

1 The Asian Environment[2]

For convenience, the nations of the developing world are commonly divided into three main groups—Asian, African, and Latin American. Convenience may indeed be served by that broad geographical division, but truth is not.

At a crudely practical level, the classification of statistics in these terms works to Asia's disadvantage. Asia, excluding China, contains roughly twice as many people as Africa and Latin America combined. It receives roughly 50% of world aid. Asia's share of aid, therefore, always appears disproportionately large, whereas in reality, by any criterion, Asia's share is too small. Only a few American military protectorates in Asia have received amounts of aid *per capita* approaching the average of developing countries elsewhere. The notoriously unfavourable treatment accorded to India as an aid recipient is part of a wider Asian picture, which is difficult to reconcile with any developmental rationale.[3]

At a more fundamental level, the subtlety and complexity of Asia is blurred. National and international agencies tend to treat each continent as a unit, which results in a vulgarisation of policies towards the nations of Asia. This tendency is reflected both in political and in economic classifications. The United Kingdom once had a single 'East of Suez' policy; such a policy was absurd, as was its subsequent, undiscriminating abandonment. For a while the man in the World Bank who was responsible for the India and Pakistan consortia—surely a full-time job—also had to direct the Asia Department;[4] this impossible

1. Some of the underlying arguments and interpretations in this chapter were first set out in J. White, 'The Asian Development Bank: A Question of Style', in *International Affairs,* Vol. 44, No. 4, October 1968. The author is grateful to the Editor of *International Affairs* for that opportunity, which resulted in numerous comments which have been taken into account in this more fully developed version.

2. The historical features noted in this section are discussed rather more fully in J. White, 'Aid and Investment', in *The Far East and Australasia 1969,* Europa, 1969.

3. For fuller discussions of this question, see, for instance, I. M. D. Little and J. M. Clifford, *International Aid,* Allen and Unwin, 1965, Chapter X, and *The Flow of Financial Resources to Less-Developed Countries 1961-1965,* OECD, 1967, pp. 149-57.

4. The World Bank, of course, was fully alive to the weight of responsibility involved. The decision to give the director of the former Far East Department responsibility for South Asia as well was taken as the seemingly most practical solution to a difficult internal staffing problem. The point to be emphasised is that if these two regions had not had the name 'Asia' in common, *such a solution would not have occurred to the bank's management.*

burden was removed by Mr. Robert McNamara when he became President of the World Bank in 1968, but he, too, fell victim to the distorting power of names when he proposed in effect a redistribution of the Bank's resources away from 'Asia' to Africa and Latin America.[1] Of the regional economic commissions of the United Nations, the Economic Commission for Asia and the Far East (ECAFE) is the most disadvantageously placed in political terms, for either it removes itself from reality by trying to apply a single prescription to the whole of the region it serves, or it fragments its own identity by speaking with different voices in different places. The Economic Commission for Latin America most conspicuously, and to a lesser extent the Economic Commission for Africa, have on occasion provided a unifying view of the problems of their regions which have had a marked impact on the attitudes of other agencies. It is difficult to think of similar cases in the history of ECAFE. One could add indefinitely to the list of such examples, illustrating the extent to which the use of the name 'Asia' conditions and distorts perception.

The divisions of Asia are different in kind from the normal sub-divisions of other continents. The Latin and Nordic peoples of Europe; the peoples of East and West Africa; the Atlantic and Andean states of Latin America: each pair falls recognisably within a single cultural framework. But the division between the Indic and Sinic peoples of Asia, for a start, is a division on a continental scale.

One of the concerns of this study is to identify the environmental factors affecting the formation and evolution of the three institutions with which it is concerned, tracing their responses to such factors and assessing the effectiveness of those responses. All three institutions are to a large extent affected by the global environment, which in this context is sometimes called the 'world aid climate'. The African and Inter-American banks, however, can identify a separate set of *regional* environmental factors, to which they may or may not respond. In both cases, the interplay of these two sets of environmental forces is what makes the institution, the creative force of regional aspirations being channelled or countervailed by the constraints of the international climate. In Asia, there is no such single set of environmental factors.

1. What Mr. McNamara actually proposed, at the 1968 annual meeting of the World Bank, was a greater acceleration of lending in Africa and Latin America than in Asia, on the ground that 'in the past the Bank Group had tended to concentrate its effort on the South Asian sub-continent', and that activities in Latin America and Africa had 'been less concentrated'. The effect of this would be that the proportion of the bank's resources allocated to Asia would decline, even though the absolute amount might increase. It is difficult to believe that an assessment of developmental needs in such broad terms makes much sense, or that it can be derived from those 'objective' criteria on which the World Bank's reputation partly rests. A likelier explanation is to be found in pressure from France and the USA, linked with the replenishment of the International Development Association.

The category of Asian nations is purely a nominal one: the concept has no content. An institution called the 'Asian Development Bank', therefore, lacks the normal guidelines by which one would expect the evolution of a regional bank to be governed. Indeed, it is questionable whether in this case 'regional' is an appropriate word. The result—and this is argued in more detail below—is that the Asian bank has found it peculiarly difficult to derive any self-evident function from the meaning of its name, as the Inter-American bank has been conspicuously able to do. Its situation is such that it is likely to develop as a *bank in Asia*. To develop as an *Asian bank* would require the acquisition of additional and particular Asian characteristics, and such characteristics are impossible to identify.

In Africa and Latin America, regional and sub-regional institutions and arrangements have evolved along parallel tracks, and there has been a high degree of interaction between the two processes. In Africa, for instance, one may cite the interaction between the formation of successive francophone groupings and the broader pan-African movement. In Latin America, the tendency towards increased co-operation among the Andean states has facilitated a rationalisation of the structure of agencies operating throughout the continent.

In Asia, the 'sub-regional' units lack the coherence of an overarching regional structure. Conceptual linkages evolve in isolation from each other—anthropologically, the South-East Asian archipelagoes; economically, the Pacific littoral; historically, the Commonwealth in Asia; theologically and legally, Islam in the non-Arab states of western Asia. And when the boundaries of these conceptual unities, or of the formal institutions in which they are reflected, break down, as they frequently do, the result is not coalescence into an 'Asian' framework, for that provides no boundaries at all. The high point of the search for an Asian identity, in the 1950s, was the discovery of something broader yet, the concept of Afro-Asia, essentially a negative racial concept embracing the non-white peoples of the world in an alliance against white domination. It was called 'non-alignment'.

Such broad concepts as Afro-Asia or non-alignment, however, are not very helpful as determinants of policy in an operational, decision-taking institution. So one observes, even in a pan-Asian institution, a tendency to reduce the problem to manageable proportions by sub-division or by restricting the range of functions to be undertaken. ECAFE, for instance, is at its most forceful in its approach to the problems of *South-East* Asia,[1] which is perhaps the easiest part of the

1. Apart from the launching of the Asian bank, the practical initiative for which ECAFE is perhaps best known is the co-operative development of the Mekong River Basin. It is significant that other ECAFE initiatives—e.g. preparatory work on the Asian Highway—represent attempts to *create* intra-regional linkages, i.e., to construct the regional framework which does not yet exist.

continent to discuss in regional terms. Lest this should be thought merely an accident of ECAFE's location in Bangkok, it may be pointed out that the same tendency exists at other levels, including, within Asia, the purely national. Japan, for instance, has sharpened its view of itself as an 'Asian' nation primarily as a determinant of policy towards South-East Asia and the archipelago states.

The Asian Development Bank, then, was born, not into one environment, but into several. The central question it had to ask itself was not 'How shall we respond to our environment?', but 'To which of our environments shall we respond?'. For a bank, which lends money, the distribution of which can be easily quantified, this question is a thorny one. An institution engaged purely in research, for instance, can put its effective resources into its main area of interest, while keeping a few sidelines ticking over as a concession to the special interests of its peripheral members. A bank cannot do this. There is no sort of quasi-capital that it can set aside for operations of subsidiary importance.

The choice that lay before the Asian bank when it was newly established was vast. The area that it serves—the less developed countries of southern and eastern Asia—contains approximately 1,000m people, or one-third of the world's population. The population of India alone is roughly equivalent to that of Africa and Latin America combined, which, from the point of view of the developed countries, is the rest of the less developed world.

The area contains at least two of the world's major civilisations, both of which are older than that of Greece and Rome; and with the exception of Judaeo-Christianity, and of Islam on its western periphery, it is the source of all of the world's major religious and ethical systems. The wealth and diversity of its traditions is reflected in social structures which may well not be amenable to the Western-derived prescriptions which dominate all current development theory. If this feature renders Asian development profoundly problematical, the possibility that the problem will be resolved, also, is to be found in Asia, in the existence of Japan as at least one country that has developed without accepting the social implications—in labour organisation, incentive patterns, and so on—of the Western capitalist-Marxist technological axis.

In recent years, two pervasive factors have brought Asia into prominence in the pattern of international relations. First, there are frontiers in Asia where the two (or three) main power blocs confront each other directly. Secondly, it is marked by poverty on a scale unknown elsewhere. So two of the three great lines of division in the modern world, the ideological and the economic, cross and tangle each other—and this in a context which is not unaffected by the third cleavage, along lines of race. The hard core of the challenge of economic development is in Asia, and that challenge presents itself in the unstable context of political confrontation.

There is one further broad aspect of the Asian situation which differentiates it from the condition of Africa and Latin America. Very few Asian countries are in a neo-colonial situation, as that term is normally understood—i.e. a situation in which crucial sectors of the economy are under direct or indirect foreign control. With only a few exceptions, such as Malaysia and Indonesia, and in absolute terms India, the countries of Asia are relatively poor in mineral resources. As a result, the role of foreign private investment is smaller than in Africa or Latin America. It has been estimated that Asia (as the term is used in this chapter—i.e., excluding the Middle East) accounts for no more than 14% of all foreign assets in developing countries—less than in developing countries in Africa, and less than one-third of accumulated foreign assets in Latin America.[1] So the direct investment stake of the developed countries in Asia is small, a fact which may disguise the nature and extent of their long-term, indirect stake, which is both economic and political, but which does not contain within itself a built-in commitment, such as that of the United States to Latin America, or of Britain and France to Africa.

The environment within which the Asian bank has to evolve, therefore, lacks definition in two fundamental respects. First, it lacks the internal coherence from which the bank might synthesise its regional role in terms of what we have characterised in Chapter 1 as 'inclusive identity'. Secondly, it lacks a coherent set of relations with the developed countries, which would provide the framework within which the bank might operate at the regional level as a financial intermediary. In terms of more specific decisions, the heterogeneity of the area also presents some awkward operational choices. First, the individual countries of the area are diverse, ranging from the world's largest democracy[2] through smaller and weaker states to tiny but highly developed entrepôts. Secondly, the areas are diverse in terms of international relations. For some of the smaller countries, such as Nepal, there is the additional problem of extreme isolation. At the other extreme, there is in mainland South-East Asia one relatively compact group of countries which form a natural focus for the attentions of any regional institution. Thirdly, levels of development vary widely. In China and Japan, Asia has not one but two models as alternatives to Western patterns of

1. This estimate is derived from provisional OECD calculations, based on data for the end of 1966.

2. It was depressing, in 1968, to hear officials of the Asian bank echoing the most reluctant of aid-givers in citing the scale of India's needs as a reason for not becoming involved in trying to meet them, even though they could rationalise this attitude by citing India's expressed willingness to forgo drawing on the bank's resources, in the interests of friendly relations (see p. 57).

development.[1] At the other extreme, as in West Irian, are areas which the development process has hardly touched. And in the middle of the range, sophisticated in its poverty, India dominates.

The Asian environment, then, is one that is shaped by Asia's size and diversity; and these features are reflected in a peculiarly complex interaction of political, economic, social, and cultural factors. But it is also an environment that is changing, and in this respect, too, the Asian situation, or situations, must be distinguished from that of other less developed continents. The use of the word 'development' to refer to a broad process of economic and social betterment, planned, stimulated, or even executed by governments, is relatively recent. The history of development, in this sense, is short, as is the history of planned international aid in support of such a process. Events in Asia are central to both histories.

Outside Europe and the Soviet Union, the first major exercise in national development planning took place in Asia, in India's first and second five-year plans (1951-61). The first concerted attempt to integrate aid from several sources in support of a national development strategy was the India Consortium, established in 1958, two years before the beginning of the so-called 'development decade'. The use of economic aid in pursuit of the developed countries' *political* objectives in developing countries began in Asia, with the provision of aid to Vietnam, South Korea, and Taiwan under the US Mutual Security Act, in the early 1950s. The establishment of the International Development Association, as a fund for providing very long-term development finance, was partly a response to the evident needs of India and Pakistan, as was the subsequent softening of the terms of aid of some bilateral donors. Many other tools which are now regarded as necessary elements in any aid programme, such as non-project aid for imports of spares and raw materials, had their origins in the same perception. The first attempt to establish a common framework within which the providers and recipients of aid could develop a co-operative approach was the Colombo Plan,[2] also in Asia. Perhaps most significant of all, the inadequacy of some of the early analytical techniques for assessing development needs was first perceived in its Asian context,

1. The relevance of China lies in the clarity with which it demonstrates the links between particular patterns of development and particular political systems: hence, for instance, the recurring contrast in Gunnar Myrdal's *Asian Drama* between the 'hard' states of eastern Asia and the 'soft' states of southern Asia. See T. J. Byres, 'Thor, Adam Smith, Marx—and Myrdal', *South Asian Review*, Vol. 2, No. 3, April 1969.

2. The Colombo Plan was inaugurated in 1950. Although it was, as suggested here, a pioneering venture, its functions are limited in a manner which has prevented it from becoming a model for similar co-operative exercises. In Latin America, for instance, the tendency has been to look to the Organisation for European Economic Co-operation (OEEC), founded two years earlier than the Colombo Plan, as the model. In formal terms, the OEEC was exclusively a recipients' organisation.

and the development of new approaches continues to be conditioned largely by reference to particular Asian situations. Much of the current literature on the mobilisation of domestic capital for industrial investment is derived from Asian case studies.[1] The increased attention given to agriculture in the late 1960s, the emphasis on incentives and the provision of improved inputs and the doubts expressed concerning the long-term effects of that approach;[2] all of these were derived mainly from Asian experience.

From these historical developments, it is possible to abstract two features which were especially relevant to the formation and evolution of the Asian bank.

First, the pattern of relations between developed and developing countries was in a sense more natural in Asia than elsewhere, distorted neither by the overwhelming presence of a single power, as in Latin America, nor by the involvements of the post-colonial era, as in Africa. As a result, the assumption was never seriously questioned that the bank should seek the broad support and participation of the developed countries, and in this respect it remains distinct from the Inter-American bank, with only the USA on the aid-giving side, and the African bank, with no developed members.

Secondly, the involvement of the developed countries in Asia had given rise, not only to structures and mechanisms for the transmission of aid, but also to a very large body of research into the nature of the problems to which aid was addressed. In the central prescriptive function of a regional bank, therefore, the Asian bank had either to accept or to overcome a great weight of conventional wisdom.

In its early years, as will be shown,[3] the Asian bank seemed inclined to accept the established view. Indeed, one's first impression was that the representatives of developing countries on the Board of Directors were even more committed to the concepts then in fashion than were the representatives of the developed countries. It may be tentatively suggested here that the explanation lies in the difficulty, within the complexity of the Asian environment, of creating a coherent and discrete identity for such an institution. Admittedly, other possible explanations come to mind, but it will be found[4] that the most obvious of these break down when the character of the Asian bank is studied in a comparative context, alongside its sister institutions in their very different environments.

1. Two indicative examples are N. H. Jacoby, *US Aid to Taiwan,* Praeger, 1967, and G. Papanek, *Pakistan's Development,* Harvard University Press, 1967.
2. The so-called 'green revolution', based on the use of improved hybrid seeds, first caught international attention in the South Asian context. It was here, also, that the failure of the new agricultural technology to reach the poorest rural classes first gave rise to serious concern.
3. See Section 4 of this chapter.
4. See Section 5.

2 The Origins of the Asian Development Bank

Formal discussion of the possibility of establishing an Asian development bank began in August, 1963, under the auspices of ECAFE. A few days previously, the finance ministers of African governments meeting in Khartoum had signed an agreement establishing a development bank for Africa.

It may be noted immediately that Asia, with comparatively evolved sub-regional mechanisms of co-operation and with greater experience of external development finance than either Africa or Latin America, was the last of the three to initiate discussions concerning a regional bank.

The source of those discussions, also, was significant. ECAFE is itself a regional institution, with countries outside the region included among its members; and it is primarily an economic institution. In other words, the proposal to establish an Asian bank originated in an institutional framework, rather than in direct discussions between sovereign states; and it was a framework which gave entrée to the developed countries from the start, and which gave to the proposal itself the appearance of a purely economic initiative. In contrast, the notion of an Inter-American bank evolved from a long series of attempts, on the part of the Latin American nations, and was made a practical possibility by a political initiative of the USA.[1] In Africa, a regional development bank was first proposed at a political conference, and only subsequently was the proposal taken over by the Economic Commission for Africa.[2] It should be clear from the preceding discussion of the Asian environment why the proposal for an Asian bank emerged in a different manner from either of these.

As such discussions go, the discussions leading to the creation of the Asian bank moved swiftly. From the first formal proposal to the signing of the agreement establishing the bank was a period of only just over two years. This period falls into two phases. From August 1963 to April 1965 the initiative, and the enthusiasm, lay almost exclusively with ECAFE. From April 1965 up to the signing of the agreement and beyond, additional and perhaps crucial momentum was provided by the USA, in the person of Mr. Eugene Black, former president of the World Bank. Right up to the inaugural meeting, however, the ECAFE secretariat continued to occupy a central position; so much so that U Nyun, as ECAFE's executive secretary, is acknowledged as the bank's originator even by those who are in general sceptical of ECAFE initiatives. The result was a certain discontinuity after the

1. See p. 147.
2. See p. 92.

bank had come into being, for there were several reasons, including the presumed attitude of those who might subscribe to the bank's bond issues, why the link with ECAFE had to be cut. At the inaugural meeting, in November 1966, U Nyun made a long speech in which he justifiably emphasised the part that ECAFE had played, speaking of 'our collective efforts in establishing this great Asian bank'.[1] Although the speech itself was harmless enough, two years later it was still the object of critical comment among those associated with the bank.

If this discontinuity did not seem significant at the time, it was because the character of the bank had not been a major issue in the discussions leading to its creation. With the World Bank and the Inter-American and African banks already in existence, precedents had been set for the structure and purpose of such institutions which seem to have been broadly accepted by the Asian bank's founders. The main issue around which discussion revolved was the mobilisation of external support: hence the significance of the part played by the USA. Subsidiary issues which arose were for the most part related to the problem of how to balance the need for external support against the need to give the institution an Asian character. In this respect, the position of Japan, as an Asian and yet developed country, was bound to be crucial. But Japan was initially reluctant to become unequivocally committed, lest it should find itself bearing a disproportionate financial burden. Only when American support was assured could Japan accept the role which fell naturally to it.

Given the decision to establish the bank as a partnership between developed and developing countries, the pattern of membership which finally emerged—with the USA dominant among the non-Asian developed members and Japan holding the balance between the non-Asian countries and the Asian developing countries—looks natural enough. In the chronological account which follows, however, it will be seen that there were occasions when a rather different membership pattern looked possible, a pattern which would have resulted in an altogether different institution. The fact that this alternative was not forcefully pursued is attributable in turn to the unquestioning acceptance of the precedents set in the creation of similar institutions, an acceptance which contributed, for instance, to the decisions of France and the Soviet Union not to join. The circle is complete, a circle shaped by precedents which were not related to the reality and the complexity of the Asian environment.

At the nineteenth session of ECAFE, early in 1963, a resolution was passed calling for accelerated measures of regional economic co-opera-

1. *Inaugural Meeting, Asian Development Bank, Tokyo 1966: Documents,* pp. 177-87. The African bank went through the same transition, though less sharply. See p. 93 and p. 126.

tion.[1] The outcome of this resolution was that a ministerial conference was convened, to be held in Manila in December of the same year. In preparation for the conference, U Nyun gathered a group of experts who would 'assist the countries of the region in preparing for the Ministerial Conference on Asian Economic Co-operation' by undertaking technical investigations and making 'recommendations on practical measures for promoting ECAFE regional economic co-operation'.[2] The group met in August and September in Bangkok, and produced nine major recommendations, one of which was the establishment of a regional bank 'to assist in mobilizing and directing resources for regional projects, joint ventures and for promoting intraregional trade'.[3] This proposal was 'endorsed'—the word used by U Nyun on a subsequent occasion[4]—by the ministerial conference, which adopted a resolution directing that further studies should be undertaken.[5] At this early stage, therefore, the proposal to establish a regional bank was seen as one of a set of proposals which together amounted to a broad strategy for intensified co-operation within the region.

After the Manila conference, U Nyun convened another group of experts to give more detailed consideration to the establishment of an Asian bank. This group—the Ad Hoc Working Group of Experts on the Asian Development Bank—met in Bangkok in October 1964, under the chairmanship of Mr. N. M. Uquaili, managing director of the Pakistan Industrial Credit and Investment Corporation. Among the members of the group was Mr. Takeshi Watanabe, a prominent Japanese financial consultant,[6] who subsequently became the bank's first president.

The group's report[7] showed a sharp change of tone. The strategic view of the bank as one of a broad range of instruments for changing the internal structure of the region gave way to a narrower, more institutional view, in which the emphasis was on the functions, resources, and structure of the bank itself. To some extent, this narrowing of the focus can be attributed to the group's terms of reference, which required it to 'evolve a scheme for the establishment of an Asian development bank and prepare a draft charter for the said institution'.[8]

1. Resolution 54 (XIX).
2. ECAFE annual report for 1963/64 (E/CN.11/662/Rev. 1), p. 20.
3. Ibid.
4. *Inaugural Meeting: Documents*, p. 179.
5. See the conference report, E/CN.11/641.
6. Mr. Watanabe has been described as the person 'primarily responsible for Japan's success on the world capital market'. See Henry S. Bloch, 'Regional Development Financing', *International Organization*, Vol. XXII, No. 1, 1968, p. 191.
7. The Report is reproduced, alongside a comparative analysis of the African and Inter-American banks, in *Regional Economic Co-operation in Asia and the Far East: The Asian Development Bank and Trade Liberalization*, UN, 1965, E/CN.11/707.
8. Report, Annex B.

But in narrowing the focus the group also changed the nature of the proposal, in a manner which can only be explained in terms of the group's composition. In its description of the role of the proposed bank, for instance, there was an implicit reversal of priorities. The bank's functions were listed as follows :

'(1) The attraction of additional funds to the region;
(2) The financing especially of those projects and those facilities for social and economic development of the region which at present are not financed or not adequately financed through existing sources or agencies;
and
(3) The *possibility* of acting as a focal point for, and a stimulus to the other measures for regional economic co-operation which are at present being studied.'[1]

The group did not pursue the third of those functions in any detail. Its view of the bank's role in this respect was confined to an assumption that the bank would have a beneficial effect on standards of project preparation in member countries.[2]

The main part of the report was taken up with consideration of the bank's capital structure. On subscriptions, voting, etc., its recommendations were close to the provisions which were eventually adopted.[3] What is perhaps more significant is the fact that, in spite of its concern with the bank as a means of bringing additional resources to the region, it gave virtually no consideration to the question of the establishment of a special fund, financed by the developed members, for lending on soft terms. Indeed, the question was hardly even raised, except in a passing reference to 'other resources, such as grants and trust funds'.[4]

The group did not have time to fulfil its main task of preparing a draft charter. This was done subsequently by the ECAFE secretariat, within the framework of the group's ideas and recommendations. The draft charter was closely modelled on that of the Inter-American bank, and in its main report the group paid tribute to 'the valuable contributions to the discussions' made by Mr. Orlando Letelier, special assistant to the president of that institution.[5] But in spite of the Inter-American bank's involvement the model that was taking shape was closer in character to the World Bank than to the Asian bank's Latin American sister institution. What was emerging was a fairly straightforward financial institution, in which the developed countries

1. Report, para. 7 : italics added.
2. Ibid., paras. 12-14.
3. See Section 3 of this chapter.
4. Report, para. 31.
5. Ibid., para. 8.

would be dominant,[1] and the chief purpose of which would be the financing of economic projects selected on the criterion of comparative rates of return.

This was the model that was presented to the twenty-first session of ECAFE, held in Wellington, New Zealand, in March 1965. The proposal was discussed under the heading of 'Development of Trade in the ECAFE Region'. Its inclusion under this heading was the last faint echo of the original conception of an integrated strategy in which the proposed Asian bank would be one of a range of instruments. Of more immediate relevance, however, was that this arrangement of the agenda gave those developed countries which were still doubtful about the proposal an excuse for talking about other matters. According to the summary records, the representatives of Britain, France, and the United States made no mention of the Asian bank in their contributions to the discussions.[2] Equally significant was the position taken by the three developed countries within the region—Australia, New Zealand, and Japan. All three expressed interest in principle, but the representative of Japan, for instance, stated his government's 'conviction' that 'the co-operation and participation of developed countries outside the region were essential',[3] which meant, roughly translated, that Japan was waiting for the Americans. Under the circumstances, U Nyun's assertion that most delegations were in favour of the proposal,[4] though statistically correct, glossed over the problems that remained.

It was clear that further persuasion would be needed. Accordingly, the participants adopted a resolution[5] establishing a consultative committee, one of the principal functions of which would be 'to undertake consultations with the Governments of the developed countries outside the region regarding their interest and the extent of their participation in the Asian Development Bank'. The countries represented on this committee were Ceylon, India, Iran, Japan,[6] Malaysia, Pakistan, the Philippines, the Republic of Vietnam, and Thailand.

Two weeks later, an American initiative put the whole discussion on an entirely different footing. The reason for that initiative was the war in Vietnam. The American commitment in Vietnam, and American casualties, were growing with alarming speed. Already, some

1. The documentation of the Asian bank emphasises its character as an 'Asian' institution. In Section 1, the meaningfulness of that concept was questioned. In Section 3, it is questioned whether the Asian bank can be characterised as an institution of the developing countries.
2. E/CN.11/709, pp. 157-61.
3. Ibid., p. 143.
4. Ibid., p. 177.
5. Resolution 62 (XXI).
6. The Japanese representative was again Mr. Takeshi Watanabe (see p. 42).

400 Americans had died there. President Johnson's administration was beginning to fear that Vietnam had become a trap, as indeed it had.

On 7 April 1965, President Johnson made his first major attempt to escape from that trap. Speaking at Johns Hopkins University, in Baltimore, Maryland, he declared that the United States was prepared to join in 'a greatly expanded co-operative effort for development' in South-East Asia, and that its own contribution, if Congress gave its approval, would include 'a billion dollar American investment in this effort when it is underway'.[1] He appealed to the Secretary-General of the UN to initiate an appropriate plan. Clearly, if the USA was not merely to exchange one burdensome commitment for another, the effort had to be an international one. In particular, President Johnson expressed the hope that the Soviet Union would participate.

To carry these proposals through, the President appointed Mr. Eugene Black, a former president of the World Bank, as his special adviser on South-East Asia.[2] Without delay, Mr. Black established contact with the consultative committee on the Asian Development Bank, which was preparing to visit the capitals of potential member countries.

American support was now assured, and with that assurance Japan, too, could enter into a firm commitment. The USA and Japan offered to subscribe $200m each, which amounted to 40% of a suggested total authorised capital of $1,000m. In addition, the USA offered to contribute $100m to a special fund for South-East Asia, which the proposed bank would administer.

American support for the proposal rapidly evolved into sponsorship.

1. *New York Times*, 9 April 1965.
2. The extent to which the Asian bank was modelled on World Bank precedents is sometimes attributed to Mr. Black's influence. Such an attribution, however, appears unjustified. Though the symbolic significance of his presence may have had some impact on the thinking of others, Mr. Black's own views appear to have been rather different. In his book *Alternative in South-East Asia*, published in 1969, he wrote: 'During the negotiations that led to adoption of the ADB's charter, I found myself in the unaccustomed position of urging my Asian friends not to rely too heavily on conventional instruments of finance. Many countries, particularly in Southeast Asia, were in no position to borrow money on conventional terms. Others promised soon to be in a debt position that would make further borrowing on conventional terms very difficult. Finally, some of the most pressing needs, in agriculture and education particularly, seemed to me to demand finance on concessional terms. The Asians fully recognized these things, *but their first interest was to see "their" bank qualify as a sound institution* among those hard-nosed people who make decisions in the capital markets of the world.' (Italics added.)

A much more plausible explanation of the Asian bank's tendency to follow World Bank practice lies in the fact that several executive directors and senior officers of the former, including the President and Vice-President, had previously been executive directors or alternate executive directors of the latter. There is some internal evidence to suggest that the bank's senior officers have consciously modelled their procedures on the precedent of World Bank practice, and that they continue to consult the World Bank for guidance.

In July, the consultative committee visited 34 countries, including fourteen outside the Asian region, one of which was the Soviet Union. At the same time, Mr. Black went on a fund-raising tour of Europe, in the course of which he addressed the assembled representatives of the developed countries in the Development Assistance Committee of the OECD.

As the political context of the discussions changed, the financial prospects of the proposed institution improved. Indeed, these two developments were linked, for both were attributable to the backing of the United States. One indication of the extent to which the context of discussion had become purely financial was the decision of Switzerland, which had consistently refused to join other international institutions of a more political character,[1] to become a full member, with a subscription of $5m. A stronger indication was subsequently provided at the inaugural meeting, which attracted widespread interest among international financial and commercial concerns.

In the course of more than a year of discussions, an assumption had developed, and had been written into the report of the expert group, that the Asian bank should have an authorised capital of $1,000m. It was proposed that regional members should subscribe 60% of the capital, and non-regional members—effectively the developed countries of Europe and North America—the remaining 40%.[2] It had also become clear that under this distribution Japan would be in a key position, holding the balance between the Asian developing countries and the non-Asian developed countries. This supposition had been confirmed when Japan offered to subscribe $200m, or 20% of the total.

The offers of the non-regional developed countries, however, had fallen short of expectations, in spite of Mr. Black's fund-raising tour and the efforts of the consultative committee. It seemed unlikely that these offers, excluding that of the USA, would amount to more than $150m. The offers of the potential regional members, on the other hand, had exceeded their provisional quota of $600m. The allocation for regional members was therefore raised to $650m.

After its tour of potential member countries, the consultative committee met again in Bangkok in August 1965 to prepare its report. This report[3] broadly endorsed the findings of the expert group. In particular, it echoed the expert group's emphasis on the primary role of the bank as an instrument for mobilising external resources, stating :

1. We are using 'political' here, of course, in the broad sense which is given to the term throughout this study. The IMF and the World Bank, for instance, are among the institutions which Switzerland's policy does not allow it to join. In the case of the Asian bank, Switzerland was presumably also not unmoved by the realisation that it would be excluded from competitive bidding for bank-financed contracts unless it joined.
2. Report of the Expert Group, para. 35.
3. E/CN.11/TRADE/ADB/L.2

'The principal advantage in setting up the Bank would seem to be an increase in the total financing available for development.'[1]

This report was sent out for comment, and the committee met again in October to resolve the few questions which had not yet been settled. That meeting was immediately followed by a preparatory meeting of officials from 31 countries, at which a draft charter was adopted. The draft incorporated numerous amendments to the version submitted by the consultative committee.[2] In general, however, these amendments were designed only to secure clarification or adjustment of technical questions. No major challenge was offered to the view of the proposed institution that had evolved from the reports of the expert group and the consultative committee. The only fundamental issue which appears to have been considered in any detail was that of the balance of control between regional and non-regional members, and more particularly between the smaller regional members and the larger ones.[3] In both respects, the view that prevailed was the one which had already developed in the previous discussions. It was decided that voting should be related to subscriptions, with only a small redress in favour of the smaller members through the allocation of part of the voting power on the basis of parity. The impact of this decision was slightly softened by the incorporation of a provision that the regional members, which included Japan, Australia, and New Zealand, should always have a majority of the voting power, and it was on this basis that the 'Asian' character of the institution was deemed to be assured.

The only delegation to point out the weakness of this assurance was that of the Soviet Union, which argued that the significant feature of the proposed voting power was that the developing countries 'would always be in a minority'.[4] From then on, it was clear that the Soviet Union was not going to become a member. The French made their position clearer still, by not sending a delegation at all.

Of the other developed countries represented at the meeting, those which were in a position to make a firm offer of a subscription took this opportunity to do so. The British delegate caused some consternation by offering only $10m, which was $1m less than had already been offered by the Netherlands and one-third of the amount offered shortly afterwards by the Federal Republic of Germany. The reaction to the British delegate's announcement was so strong that he was induced to make a second statement, assuring the meeting of the British Government's 'warm feelings' towards the Asian bank, and rejecting accusations that Britain was 'buying membership on the cheap'.[5] Some weeks

1. Ibid., para. 8.
2. Report of the Preparatory Committee on the Asian Development Bank, paras. 22-82.
3. Ibid., paras. 30, 38, 64, and 65-67.
4. Ibid., Appendix D, p. 47.
5. Ibid., Appendix D, pp. 40-43.

later, after the United States had brought additional pressure to bear, the British offer was raised to $30m.

After the meeting of the preparatory committee, events moved more rapidly still. In November, the consultative committee held its final meeting, in Manila, where it considered such remaining questions as the detailed allocation of subscriptions, the election of directors, and the programme for bringing the bank into being.[1] Its final report was then presented to a conference of Asian ministers which took place in Manila immediately afterwards, the Second Ministerial Conference on Asian Economic Co-operation, which was the successor to the first Manila conference, held two years previously.

The conference accepted the draft charter as presented by the consultative and preparatory committees, but it had one question still to settle, a question which could only be settled in political terms—that of the location of the bank's headquarters. The original expert group had suggested a set of criteria of the usual kind, including accessibility, availability of qualified staff, political stability, and availability of financial institutions.[2] The consultative committee endorsed these criteria, but suggested that the decision should be taken by 'a more representative body', such as the ministerial conference.[3]

Nine countries had offered to accommodate the bank. These were Afghanistan, Cambodia, Ceylon, Japan, Iran, Malaysia, the Philippines, Singapore, and Thailand. Japan and Iran, at the two extremes of the region, were particularly intent on having the bank located in their capitals. Among the South-East Asian countries, there was a feeling that Singapore and Bangkok offered the best facilities. In political terms, however, there were only two serious contenders—Manila and Tokyo.

Manila had three factors in its favour. First, and in practical terms of the greatest significance, was the fact that it was in Manila that the decision was being taken. In addition to putting Manila in the forefront of the delegates' minds, this circumstance gave the Government of the Philippines an advantage in lobbying. Secondly, Manila had reasonable, though not good, transport connections with other countries in the region,[4] and was geographically close to the bank's probable focus of operations in South-East Asia, while at the same time it was far enough away to avoid giving the bank the air of being a purely South-East Asian institution. Finally, the chairman of the consultative committee, and therefore a dominant personality in the preparatory discussions, had been Mr. Cornelio Balmaceda, Secretary

1. ECAFE annual report for 1965/66 (E/CN.11/739/Rev. 1), p. 28.
2. Report of the Expert Group, para. 69
3. Report of the Consultative Committee, paras. 87-89.
4. Postal and telegraph communications, however, were very bad, with telegrams taking anything up to a week to be delivered.

for Commerce and Industry in the Philippines Government, who subsequently became a director of the bank.

Japan, too, had a particular link with the preparatory discussions, since Mr. Watanabe was the only person who had served both on the expert group and on the consultative committee. In addition, the Japanese Government could offer Tokyo's financial advantages and its own significant bridging role within the institution. The South-East Asian countries, however, were suspicious of Japanese intentions. American advisers warned the Japanese Government that it would be politically imprudent to press Tokyo's claims too hard, and that they would be on safer and more useful ground if they confined themselves to advancing a candidate for the presidency. In terms both of prestige and advantage, however, the Japanese saw the location as a more desirable and perhaps a more durable prize.

The first round of voting failed to produce a conclusive result, and it soon became clear that certain arrangements which had been made privately were breaking down. At this point, the entire conference was floated out into Manila Bay aboard the president's yacht. The yacht broke down (according to the folklore that has grown up around the incident, the breakdown was engineered), and the yacht stayed out in the bay until sufficient support had been mobilised for Manila's candidacy.

The way in which this decision was reached is worth recounting in some detail, because it is illustrative in two respects.

First, it is typical of the way in which months of patient technical work, if not related to explicit political criteria, can be set aside by the forces of the moment, so that decisions with crucial political implications are taken without forethought. In Manila, the protective custody of the United States is rather conspicuous. Delicate relations with Japan and wartime memories complicate Japan's performance of its role in the bank. Rightly or wrongly, Manila has the reputation of being an unpleasantly dangerous place,[1] which was given to the writer by several people as the reason for their having refused invitations to join the staff of the bank. In broader terms, the legacy of Spanish rule has given to the Philippines an atmosphere which is quite distinct from that of other parts of Asia, more reminiscent of parts of Latin America. None of these factors appears to have been considered.

Secondly, the rejection of Tokyo's candidacy underlined the delicacy of Japan's position in the bank. Japan was torn between the desire to support the bank as an additional instrument for developing purchasing power and the production of raw materials in the countries nearest

1. For a descriptive presentation of this view, see, for instance, R. West, 'South Pacific', in the *Sunday Times,* 13 April 1969. Mr. West's article drew the expected protest from the Philippines ambassador the following week.

to it and, setting limits to this support, the determination not to become over-committed as the bank's main source of finance: hence the early reticence, followed by somewhat thrusting behaviour once American support had been secured.[1] The other Asian nations, equally, were torn between a desire to secure an increased flow of Japanese resources and a determination not to constitute a Japanese sphere of influence. Amid these conflicting pressures, the deciding voice was likely to be that of the United States, which wanted to encourage Japan to assume some of its own economic commitments in the region. When American support was absent, as was the case in Manila Bay, Japan's position crumbled.

The ministerial conference was immediately followed by a three-day conference of plenipotentiaries, at which the participants in the ministerial conference were joined by the representatives of their future non-Asian developed partners.[2] Neither France nor the Soviet Union was represented. Iran was offended by the rejection of Teheran's candidacy, and subsequently withdrew from membership.[3] The Japanese delegation was for the moment rather subdued, following the rejection of Tokyo, and temporarily played a less prominent part while those concerned recovered from the loss of face that they had endured.[4]

The conference was in fact no more than a formality, so much so that the report of its proceedings[5] took only two pages. The agreement establishing the bank, its charter, was unanimously adopted, and opened for signature on 4 December. It was signed immediately by nearly all those countries represented, with a provision that it would enter into force when at least 15 signatories, including at least ten countries in the ECAFE region, and representing not less than 65% of the bank's authorised capital, had accepted or ratified the agreement, provided that this was not later than 30 September 1966.[6] Under this provision, the agreement entered into force on 22 August 1966. The inaugural meeting was held in Tokyo in November, and was

1. For a fuller discussion of Japanese development policy in Asia, see J. White, *Japanese Aid,* ODI, 1964, pp. 17-23, and 'Japan's Foreign Policy', in *Venture,* Vol. 17, No. 11, December 1965.

2. The countries represented were: Afghanistan, Australia, Cambodia, Ceylon, Republic of China, India, Iran, Japan, Republic of Korea, Laos, Malaysia, Nepal, Netherlands, New Zealand, Pakistan, Philippines, Republic of Vietnam, Singapore, Thailand, United Kingdom, USA, Western Samoa, Belgium, Canada, Denmark, Federal Republic of Germany, Italy.

3. *Inaugural Meeting: Documents,* p. 62.

4. Caution is necessary in the use of such concepts as 'loss of face', which can all too easily lead to over-simplified racial or national characterisations. Several Japanese officials, however, subsequently averred that Mr. Watanabe's reputation and authority in Japan had been gravely impaired by his failure to secure the choice of Tokyo as the site.

5. 'Conference of Plenipotentiaries on the Asian Development Bank: Report', ECAFE, 1965.

6. Article 65.

attended by representatives of the following countries as founder members: Afghanistan, Australia, Austria, Belgium, Cambodia, Canada, Ceylon, Republic of China, Denmark, Finland, Federal Republic of Germany, India, Italy, Japan, Republic of Korea, Laos, Malaysia, Nepal, Netherlands, New Zealand, Norway, Pakistan, Philippines, Republic of Vietnam, Singapore, Sweden, Thailand, United Kingdom, USA, and Western Samoa. In addition, Indonesia was admitted at the inaugural meeting, by an accelerated procedure.

From the establishment of the consultative committee to the inaugural meeting was a period of 20 months. For the African bank the equivalent period had been 30 months; for the Inter-American bank, it had been 17 months. The establishment of the Asian bank bore a superficial resemblance to that of the Inter-American bank, in that the most conspicuous accelerating force was the political interest of the United States. But it was a political interest of a very different kind, and the nature of it does not constitute a sufficient explanation of the speed with which the preparatory discussions were completed. A more complete explanation is to be found in the unthinking and unquestioning acceptance of a prefabricated institutional formula which was not in any sense derived from Asia's needs or related to the Asian environment.

3 Structure

The creation of the Asian Development Bank completed a trio of nominally similar institutions serving the three continents which contain most of the world's less developed countries. Its originators appear to have been conscious of this aspect of it, as one of a family of institutions. Since it was the last of the three to be set up, they could and did draw on numerous precedents for the resolution of such technical questions as arose. The allocation of subscriptions among regional members, for instance, was discussed entirely in terms of existing formulae.[1]

The main source of these precedents was the World Bank group, with certain modifications and additional features which had been found desirable in the Inter-American and African banks. In terms of operational principles, the Asian bank possesses powers broadly similar to those of its two sister institutions; but in its membership and capital structure it is rather closer to the World Bank.

The extent to which the articles of the Asian bank were derived

1. See the Report of the Expert Group, Annex E.

from precedent has had some bearing on their significance in the formulation of policy.

First, it is noteworthy that the salient features of the articles were subject to less debate before the bank was established, and less argument over interpretation afterwards, than was the case in the Inter-American and African banks. Those countries which had serious reservations concerning the proposed structure simply did not join.

Secondly, since most of the features of the bank were derived from existing models, they have not figured prominently in the bank's public presentation of itself as an Asian institution. Features which were publicised in the Inter-American and African banks as innovations were accepted in the Asian bank as tried and tested solutions to known problems. When the staff of the African bank emphasise its character as an African institution, they mean that it is an institution specially tailored to Africa's needs.[1] When the staff of the Asian bank take the same line, they mean that of a family of similar institutions this is the one in which Asians are in control. The validity of this latter claim is examined below.

Finally, the experience that went into the articles of the Asian bank resulted in a document of great technical competence, which constituted a highly practical blueprint for a working institution. There are few of the legal ambiguities which characterise the articles, in particular, of the African bank. By the same token, there is not that groping approach to functions as yet only dimly perceived which characterises the articles of both the African and Inter-American banks. The articles of the Asian bank are very clear, and it seems probable, from such evidence as can be derived from the bank's relatively short record, that it will indeed evolve along the lines which its articles suggest. If the same had been true of the articles of the African and Inter-American banks, the three institutions would now be much more similar than they in fact are.

This last point is perhaps the most important of all. It is argued in this study that it is by the performance of a 'political', or prescriptive, function that the long-term significance of regional banks has to be assessed, and that the performance of this function is in part dependent on the development of an appropriate 'style'. In the subsequent analyses of the African and Inter-American banks, it is demonstrated that the development of a style has been a by-product of the search for an identity and a role. In the case of the Asian bank, the need for such a search may be veiled by the apparent lucidity with which the institution is defined in its articles. To that extent, the scope for creative experiment is restricted.

1. The validity of these claims, which should of course be treated with caution, is examined in the appropriate chapters. But the fact that the claims are made, whether they are valid or not, is itself important.

Membership, subscriptions, and voting rights

Membership of the Asian bank is open to members and associate members of ECAFE, to other regional countries which are members of the UN or any of its specialised agencies, and to 'developed' countries outside the region, subject to the same proviso about UN membership.[1]

Membership is thus not open to the People's Republic of China. It was initially hoped that the Soviet Union would join, and there is some evidence to suggest that this hope was shared by the USA.[2] But the Soviet Union refused to join, on the ground that it objected to the proposed distribution of voting power. Similarly no East European country is a member.

The absence of Communist countries has had a bearing on the attitudes of some neutralist countries. The bank has been characterised by one of those most closely associated with its creation as having a frankly 'Western' image.[3] Presumably on that account, Burma and Outer Mongolia refused invitations to join. Indonesia did not apply for membership until after the fall of President Sukarno in 1966. Cambodia accepted membership, but with some qualms, which were clearly expressed at the inaugural meeting.[4] Cambodia subsequently announced its withdrawal from membership, and then withdrew its withdrawal.

New members may be admitted by a two-thirds majority of all the governors, representing not less than 75% of the total voting power. This means that no single member has a power of veto, but it is unlikely that any new member would be admitted against opposition from either Japan or the USA. (See Table 1, p. 55.)

A special provision, designed for Hong Kong and Brunei, enables dependent territories which are associate members of ECAFE to be admitted, under the auspices of the country responsible for their international relations.[5]

In the classification of subscriptions, the articles draw a distinction between regional and non-regional members.[6] The term 'region' is defined to cover 'the territories of Asia and the Far East included in the Terms of Reference of the United Nations Economic Commission for Asia and the Far East'.[7] Australia and New Zealand are thus classified as regional members.

Subscriptions were allocated to regional members in accordance with a scale derived from gross domestic product, adjusted for population, total exports, and total tax revenues.[8] The subscriptions of non-regional

1. Article 3.
2. See p. 45.
3. Bloch, op. cit., p. 190.
4. *Inaugural Meeting, Documents,* p. 230.
5. Report of the Consultative Committee, para. 17, and Article 3(3).
6. *Agreement Establishing the Asian Development Bank,* Annex A.
7. Article 1.
8. Report of the Consultative Committee, para 27.

members were largely a matter of what they were prepared to offer, above a prescribed minimum of \$5m.[1] There is no other stipulation of maximum and minimum subscriptions, apart from a provision that the proportion of capital stock held by regional members shall not be less than 60% of the total.[2]

The authorised capital stock, set initially at \$1,000m, was raised to \$1,100m[3] at the inaugural meeting. The authorised capital is divided into shares of \$10,000 each. Half of each member's shares are callable, and half are to be paid in, in five equal annual instalments.[4] The paid-in portion, in turn, is divided into two halves. One half is payable in gold or convertible currency, the other half in the currency of the member.[5] This provision has the effect of doubling the subscriptions of those members which have convertible currencies, i.e., the developed countries, in relation to the subscriptions of the developing countries. It will be seen from Table 1 that the subscriptions of developing countries amount to \$307m. The amount which the developing countries have to subscribe in gold and convertible currency, therefore, is \$77m, or 71% of the amount to be paid by the much smaller and poorer membership of the African bank.[6]

Voting rights are slightly weighted in favour of the smaller members. Each member has one vote for each share that he holds. In addition, votes equivalent to 25% of the number of subscribed shares are allocated equally among the members.[7] Thus 20% of the votes are allocated as basic votes, on a flat rate, compared with 10·1% in the IBRD, 3·2% in the Inter-American bank, and 50% in the African bank. This figure represents a compromise. The USA and Japan wanted a figure closer to that of the Inter-American bank, which would have given them a voting strength more or less proportionate to their subscriptions. Several of the smaller developing countries—e.g. Laos, Nepal, Singapore—had previously argued in favour of a distribution somewhere between that of the African bank and complete parity. The compromise which was adopted, as will be seen from Table 1, gave the smaller members some increase in voting power, but left the dominant position of the USA and Japan more or less intact.[8] Decisions on most

1. *Agreement*, Annex A.
2. Article 5(1).
3. Resolution No. 10 adopted at the inaugural meeting.
4. Article 4. Values are expressed in terms of US \$ at 31 January 1966.
5. Article 6(2).
6. See pp. 102 ff.
7. Article 33(1).
8. This can be seen more clearly by comparing Table 1 with Table 4 which gives the equivalent figures for the African bank. In the Asian bank, Japan, with 20·62% of the capital, has 17·12% of the voting power. In the African bank, the UAR, with 13·8% of the capital. has only 8·8% of the voting power, giving ratios of 1·2 and 1·6 respectively. In the Asian bank, the largest subscriber has 27 times as many votes as the smallest; in the African bank, only five times as many.

subjects are by simple majority, which means that it would be impossible for the developing countries to muster a blocking vote, even if it were tactically feasible for them to try to do so.

The inaugural meeting of the bank was attended by 31 countries, including Indonesia, which was admitted in the course of the meeting under an accelerated procedure. Switzerland joined at the end of 1967, and Hong Kong joined in March 1969, bringing the total membership to 33, and the subscribed capital to $978m. In terms of the membership categories normally used by the bank, there were 20 regional members and 13 non-regional members. It is appropriate at this point, however, to raise the question whether these categories reflect the real groupings within the bank. In Table 1, the two main categories used are developed and developing countries, and these in turn are sub-divided under headings which provide a more useful basis for discussion of the bank's structure. These categories are necessarily quantified in terms of share-holdings and voting power. It must be emphasised, however, that the precise voting power of any particular group is not very significant. The Asian bank, like its sister institutions, takes great pains to avoid the kind of confrontation which can only be resolved by a formal vote. The US Government, in particular, is well aware that, by using its voting power too openly in order to maintain its position, it also uses up credit. A qualification of different groups in terms of voting power can only give rough indications of where the weight of the institution lies. In the case of the Asian bank, the indications are rather clear.

The Asian bank's claim to be an 'Asian' institution rests on the provision in Article 5(1) which ensures that at least 60% of the subscribed capital will be held by the countries of the region. But these regional countries include two—Australia and New Zealand—which are not part of the Asian continent (that is to say, the bank's definition of the 'region' broadens 'Asia', to take in Australasia). In any major division of opinion, it seems at least as likely that these two countries would find themselves sharing a common position with the group that includes Britain and Canada as that they should spring to the defence of Afghanistan, Cambodia, or Laos. Since they hold 11% of the shares, it would be technically possible for a majority of the shares to be held by non-Asian countries. At the end of 1968, the Asian members held 51% of the shares, and 52% of the voting power.

One of the Asian members, however, is a developed country. In Japan's foreign policy, its status as a developed country is emphasised at least as strongly as its adherence to Asia; and when the two orientations are in conflict it is Japan the developed country which is uppermost. In the Asian bank, the significant feature of Japan's membership is not that it is a regional country, but that it is one of the two principal subscribers. In the preceding pages, several instances have been

Table 1 Shares and voting power of members of the Asian Development Bank, 31 December 1968

Member country	Shares $m	Percentage of total shares	Percentage of total voting power
Developed countries			
USA and Japan			
USA	200	20·62	17·12
Japan	200	20·62	17·12
Total: USA and Japan	400	41·24	34·24
Other non-regional			
Austria	5	0·52	1·04
Belgium	5	0·52	1·04
Canada	25	2·57	2·69
Denmark	5	0·52	1·04
Finland	5	0·52	1·04
Germany (Fed. Rep. of)	34	3·50	3·43
Italy	20	2·06	2·27
Netherlands	11	1·13	1·53
Norway	5	0·52	1·04
Sweden	5	0·52	1·04
Switzerland	5	0·52	1·04
United Kingdom	30	3·09	3·10
Total: Other non-regional	155	15·99	20·30
Other regional			
Australia	85	8·76	7·64
New Zealand	22·56	2·32	2·48
Total: Other regional	107·56	11·08	10·12
Total: Developed countries	662·56	68·31	64·66
Developing countries			
Large countries[1]			
India	93	9·59	8·30
Indonesia	25	2·57	2·69
Pakistan	32	3·30	3·26
Total: South-East Asia	150	15·46	14·25
South-East Asia (mainland)			
Cambodia[2]	3·5	0·36	0·91
Laos	0·42	0·04	0·66
Malaysia	20	2·06	2·27
Singapore	5	0·52	1·04
Thailand	20	2·06	2·27
Vietnam (Rep. of)	12	1·24	1·61
Total: Large countries	60·92	6·28	8·76
Others			
Afghanistan	4·78	0·49	1·02
Ceylon	8·52	0·88	1·33
China (Rep. of)	16	1·65	1·94
Korea (Rep. of)	30	3·09	3·10
Nepal	2·16	0·22	0·80
Philippines	35	3·61	3·51
Western Samoa	0·06	0·01	0·63
Total: Others	96·52	9·95	12·33
Total: Developing countries	307·44	31·69	35·34
Grand total	970	100·00	100·00

Notes: 1. Countries with populations of more than 100m.
2. At the end of 1968, Cambodia was in arrears on account of the second and third instalments. On 27 December, however, it announced that it did not intend to pursue its earlier intention of withdrawing from membership.

Source: Asian Development Bank, Annual Report for 1968, Appendix 1-V.

identified in which Japan and the USA shared a common position, and this trend became more marked after the bank had been established.

The real division, therefore, is between developed and developing countries, and it is a division by which the developed countries, with nearly two-thirds of the voting power, are overwhelmingly the dominant partners.

This division is in fact recognised in the bank's articles. Although lip-service is paid to the concepts of regional and non-regional members, the reality emerges in Article 1, which states that the bank's resources are to benefit the developing countries of the region. The Asian bank is not a regional institution at all. It is an agency for the transmission of multilateral aid to selected countries. The selecting will be done by the donors.

However, it would be wrong to look at the developed countries in the Asian bank as a single dominant and homogeneous group. The position of the USA and Japan, with clear policy objectives, is quite distinct from that of the other developed countries, for which the Asian bank is only of marginal interest, and which can therefore take a more flexible approach. Some of these other countries were brought in as a result of American pressure, which was motivated by the desire of the US administration to acquire partners in its Asian commitments. Once in, they were bound to give thought to their role. Canada, for instance, has consistently taken a positive stand which is markedly different from that of the USA.[1] For the future of the Asian bank, the distinction between developed and developing countries is likely to prove less significant than the distinction between the majority of the developed countries and the US-Japan axis round which the bank revolves. The voting powers of these two groups are 30% and 34% respectively. It follows that the smaller developed countries, if they are to prevent the bank from becoming little more than an agency for the promotion of a US-backed Japanese hegemony, will have to develop a common position with at least some of the developing countries. The pattern is therefore less simple than it looks. The forces operating against the dominance of the developed countries as a single group are rather strong.

Any categorisation of the developing countries in the Asian bank must be fairly arbitrary. The categorisation used in Table 1 was suggested by two features of the preparatory discussions. First, it was recognised from the outset that the presence of two or three very large countries among the bank's members gave rise to a problem of distribution. A provision in favour of the smaller countries of the region was written into the articles.[2] Early on, India took the position that it

1. See p. 80.
2. Article 2(ii).

would not make a major claim on the bank's resources, and it seemed to regard its membership of the bank as a political gesture of Asian solidarity rather than as a means of acquiring additional development finance. In the bank's early lending operations, there were signs of restraint also in relation to Indonesia and Pakistan.[1]

Secondly, the origin of the US involvement suggests that the bank is likely to be most active in South-East Asia, particularly mainland South-East Asia, which also constitutes a recognisable region, in a sense in which Asia as a whole does not. There is much evidence pointing to the likelihood of a growing involvement in this area. According to one authority, for instance, 'A major future challenge to the Asian Development Bank lies in Southeast Asia, which is today one of the world's great danger zones', and the writer goes on to identify the development of the Mekong Basin as a task in which the Asian bank may have an important part to play.[2] It is clear from Table 1, however, that an orientation of this kind could not spring from the bank's 'Asian' character. With less than 9% of the voting power, and only 6% of the shares, the South-East Asian countries are a very small minority. A concentration on South-East Asia would provide further corroboration of the contention that the Asian bank is not an Asian institution, but rather a policy instrument for the pursuit of two countries' Asian policies.

Aims and functions

The stated purpose of the Asian bank is 'to foster economic growth and co-operation' in the Asian region and 'to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually'.[3]

This definition of the bank's purpose is rather more precise, and therefore perhaps more restrictive, than the equivalent articles of the Inter-American and African banks. The Inter-American bank has consistently taken a very broad view of the development process.[4] In the case of the African bank, an attempt was made to write this view into the articles, by introducing the concept of 'social progress'.[5] In the very different circumstances of the mid-1960s, however, it proved difficult to translate this concept into a programme of action.

With the establishment of the Asian bank, the narrower view reasserted itself. For the first time, economic development was explicitly equated in legal phrases with economic growth, suggesting a purely quantitative approach which would ignore considerations of the values

1. See p. 78.
2. Bloch, op. cit., p.191; but see p. 72 of this study.
3. Article 1.
4. See pp. 155 ff.
5. See p. 104.

both of equity and of tradition. The concept of 'social progress' was dropped. It was replaced by the looser term 'co-operation', which had emerged in the 1960s partly as a catchword for the comfort of small and vulnerable developing countries, anxious to construct larger units. The assumption was that such units would in some sense be more viable. For developed countries, 'viable' meant 'not needing aid'. For developing countries, it meant, among other things, 'in a stronger bargaining position to get more aid'.

In pursuit of its purpose, the bank is required to give priority to those 'projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole', which is a reflection of the bank's interest in regional co-operation. But it is also required to have 'special regard to the needs of the smaller or less developed member countries in the region'.[1]

The bank's functions also include the promotion of public and private investment, the provision of assistance in the co-ordination of national policies, particularly in foreign trade, and the provision of technical assistance in the preparation of projects.

Resources

The bank's ordinary capital resources are defined as the subscribed amount of the authorised capital stock, funds raised by borrowings, funds received in repayment and income derived from loans and guarantees, and any other funds received which do not constitute 'special funds'.[2]

From its ordinary resources, the bank may set aside a special fund or funds amounting to not more than 10% of the unimpaired paid-in capital. It may also accept resources for administration as special funds, provided that these funds 'are designed to serve the purpose and come within the functions of the Bank'.[3] Special funds derived from the bank's own resources are to be used for lending on more generous terms than those established by the bank for its ordinary operations. Special funds received from other sources may be used in any manner that is consistent with the bank's functions, subject to an implicit reservation concerning such conditions as may be attached to their use by the country or institution which provides them. In short, the bank in theory has an exceptional degree of freedom in this respect, and is in effect free to use its special funds simply as a means of leavening its ordinary resources.

In practical terms, the position is rather different. Within the bank, those who have given most thought to the question of special funds are the executive directors representing the *developed* countries. If this at

1. Article 2(ii).
2. Article 7.
3. Article 19.

first seems odd, it becomes more readily explicable in the context of the political objectives of some of the larger subscribers to the bank, which may be contrasted with the factors which weighed with the individuals who dominated the preparatory discussions. The staff of the bank, working in an environment which was set by the increasingly orthodox tone of those preparatory discussions, do not attach high priority to the securing of special funds. They talk about it frequently, but in a manner which makes it clear that they regard such funds as peripheral to the main business of their banking operations, just as the staff of the World Bank tend to regard the IDA as a subsidiary fund, the significance of which is merely that it increases the resources at their disposal, while they explicitly reject any suggestion that the possession of this fund should cause them to change the essential character of the bank as an institution. This attitude was clearly expressed by Mr. Watanabe, the president of the Asian bank, at the inaugural meeting. After saying that the bank would seek special funds, he added, 'However, I would like to stress at this time that conventional or hard loans are the material of which any bank's foundation must be constructed.'[1] Since it is the developed countries that show the strongest interest in such funds, discussion of the question naturally reflects the developed countries' purposes. The nature of those purposes, and the extent to which they conflict with each other, are discussed below, in the context of the bank's evolution.[2]

The extent to which the bank is backed by the governments of developed countries appears to put it in a strong position for floating bond issues on their capital markets. It was assumed from the outset that this would be the bank's main source of funds, and at a very early stage the bank succeeded in attracting the interest of American, British, and other financial houses. During the first few years of the bank's existence, however, there was a world shortage of capital and the scope for bond issues was inhibited by factors over which the bank had no control. In 1968, the bank raised $2,800,000 by selling participations in three of its loans, the total amount of which was $24,200,000, to 20 commercial banks.[3] In the previous year, it had begun the rather lengthy preparations necessary for floating bond issues in the USA, and in November 1968 Mr. Watanabe told the International Chamber of Commerce in Hamburg that he hoped to float a bond issue in Germany in 1969.[4] These were necessarily cautious beginnings. Among the precautions taken by the bank was the adoption of a resolution, in January 1968, limiting its total outstanding borrow-

1. Closing remarks at the inaugural meeting of the Board of Governors, 24-25 November 1966.
2. See Section 4.
3. Annual Report for 1968, p. 40.
4. ADB press release, Hamburg, 26 November 1968.

ing at any time to the equivalent of the callable capital subscribed by members with convertible currencies—i.e., in effect, the developed countries.[1] In short, outstanding borrowing by the bank is unlikely to exceed $300m, at least until the members have agreed to an increase in the authorised callable capital stock.

The bank's subscribed capital, also, is subject to certain limitations. In general, the proceeds of bank loans may be used only for procurement in member countries.[2] That provision is unlikely to prove unduly restrictive, especially since the Board of Directors is empowered to make exceptions. There is a real diminution of the bank's usable resources, however, in the provision that developing members may restrict the part of their subscription paid in their own currencies to procurement in their own territories.[3] The same applies to any other regional member 'whose exports of industrial products do not represent a substantial proportion of its total exports', subject to certain qualifications.[4] This provision was inserted to protect the interests of Australia and New Zealand, both of which have taken advantage of it. The freely convertible part of the paid-in capital, therefore, amounts to approximately $380m.

The bank's total free resources, therefore, are unlikely to amount to more than $700m in the immediate future. Even if one adds a hypothetical figure for such special funds as the bank may collect, which are most unlikely to be available for unrestricted use, it is clear that the bank is operating on a relatively small scale. In relation to the area that it serves, the effective resources of the Asian bank are roughly comparable to those of the African bank, but much smaller than those of any other similar financial institution. To put it in proportion, the annual average flow of official financial resources to the region from OECD member countries and multilateral agencies, net, from 1960 to 1965, was $2,317m.[5] In other words, the total usable resources likely to be available to the Asian bank for as far ahead as one can see are rather less than one-third of the amount of similar resources that the region already absorbs annually.

Organisation and management

The highest authority of the bank is the Board of Governors, on which each member is represented by a governor and an alternate governor.[6] The great majority of the governors are the finance ministers of their respective countries.

1. Annual Report for 1968, p. 41.
2. Article 14(ix).
3. Article 24(2) (i).
4. Article 24(2) (ii).
5. *Geographical Distribution of Financial Flows to Less Developed Countries*, OECD, 1966 and 1967.
6. Articles 27 and 28(1).

The Board of Governors usually meets once a year. Certain powers are reserved to it, and may not be delegated. These include questions of membership, changes in the authorised capital stock, amendments to the articles, the election of the directors and the president, and the conclusion of agreements with other agencies.[1] One interesting feature of the functions of the Board of Governors is the explicit power to determine which members are to be regarded as developed or developing.[2]

The general operations of the bank are under the control of the Board of Directors.[3] There are ten directors, seven of whom are elected by the governors who represent regional members and three of whom are elected by the governors representing non-regional members.[4] The voting procedure[5] contains the usual safeguards to ensure an even distribution of voting power. Directors representing regional members have to receive at least 10% of the total votes of such countries. Beyond that, if a director receives additional votes which bring his total to more than 11%, the additional votes have to be cast again in a further ballot. The lower and upper limits for directors representing the non-regional members are 25% and 26%.

These rather close limits, however, are relatively ineffective, certainly less so than in the African bank,[6] where similar safeguards result in a very even spread of voting power. The explanation lies partly in the uneven spread of voting power among the individual members, which renders it inevitable that four of the ten directors should represent single countries. An additional cause of disparity is the distinction between regional and non-regional members, which ensures that the directors with the greatest voting power represent developed countries exclusively. At the end of 1968, the directors represented the following groups of countries (with percentages of total voting power in brackets): USA (17·12); Japan (17·12); UK, Canada, Denmark, Finland, Norway, Sweden (9·95); Germany, Italy, Netherlands, Austria, Belgium (9·31); New Zealand, Malaysia, Thailand, Singapore, Western Samoa (8·69); India (8·30); Australia (7·64); Indonesia, Ceylon, Afghanistan, Cambodia, Nepal, Laos (7·41); Philippines, Pakistan (6·77); Republic of Korea, Republic of China, Republic of Vietnam (6.65).[7] It will be seen from this list that the most powerful directors had nearly three times the voting power of the weakest, that the four most powerful directors, with 53·5% of the total voting

1. Article 28(2).
2. Article 28(4).
3. Article 31.
4. Article 30.
5. Agreement, Annex B.
6. See p. 106.
7. Annual Report for 1968, Appendixes 1-V and 7. N.B., the percentages do not add up to 100, as Switzerland was at that time unrepresented.

power, represented developed countries exclusively, and that the three weakest directors represented developing countries exclusively.

It must be emphasised again that questions of policy are seldom resolved by a direct use of voting power. The Asian bank, like other such institutions, takes some pains to avoid direct confrontations on the Board of Directors, or formal votes. But the figures given are some indication of relative degrees of influence.

A noteworthy feature of the Asian bank is the extent to which the Board of Directors takes an active part in policy formulation. The directors reside in Manila, where naturally enough their energies are devoted full-time to the bank's affairs. In 1968, they met more than once a week. As a result, the bank is not dominated by the president to the same extent as the African or Inter-American banks, or, indeed, the World Bank. From such evidence as the governors' speeches at annual meetings, it is clear that the directors most active in policy formulation are those with the largest voting power.

This state of affairs was foreseen by the developing countries in the preparatory discussions, and they sought various concessions, such as an increase in the number of directors to give the developing countries a numerical majority, to offset the developed countries' strength. They failed. The most they could secure was an undertaking to review the question after two years.[1]

The executive head of the bank is the president, who is elected by a simple majority of the governors, representing a majority of the voting power.[2] He must be a national of a regional member country. His term of office is five years.

The president is given a relatively free hand in staffing the bank, being required only to 'pay due regard' to the need to recruit staff on a wide geographical basis within the region.[3] Perhaps because of this, a nucleus of staff was built up fairly rapidly, though of somewhat uneven quality. The structure of the bank's staff was initially kept very simple, and then, after two years, was rationalised in accordance with the needs of the bank's operations as they had emerged through experience. From March 1969, when the rationalisation was announced, the core of the bank has been a unified Operations Department. Technical services are provided by a Projects Department, and research services are provided by an Economic Office.[4] In addition, the bank has had from the outset the usual administrative offices, and an extremely active Information Office. By the end of 1968, after two years of operations, the bank had recruited 94 professional staff, and this number was expected to rise to 146 by the end of 1969.[5]

1. Article 30(1) (ii).
2. Article 34.
3. Article 34(6).
4. ADB News Release No. 4/69.
5. Annual Report for 1968, p. 37.

Operations

The bank's articles, while giving it some latitude in its range of operations, provide a reasonably clear indication of the kind of operational policy that was expected to evolve. Although its purpose is to promote the economic development of the developing countries in the region, it is not so confined in its actual operations, for it may lend to any member, and to any regional or other international agency concerned with the region's development. It may lend to any public or private enterprise operating in member countries. It may make direct loans, guarantee loans in which it participates, or invest in equity.[1] When the borrower is not a member government, the bank may seek a government guarantee, but it is not compelled to do so.[2]

The bank's 'operating principles', however, are set out in some detail. They are summed up in the requirement that the bank 'shall be guided by sound banking principles'.[3] It is laid down that the bank should engage 'principally' in the financing of specific projects, the only stated exception being loans to national development banks which themselves finance 'specific development projects'.[4] The bank is required to give priority to projects which will foster regional co-operation, and to the smaller member countries.[5] Guidelines are laid down for ensuring that the bank does not put its resources at risk.[6]

The articles do not commit the bank to a fixed rate of interest or period of amortisation.[7] The terms of lending have to be related to the particular circumstances of the loan, but it is not made explicit whether this means an assessment of the project for which the loan is intended. In practice, however, the bank adopted in its first two years a fixed rate of interest of $6\frac{7}{8}\%$ (including a commission of at least 1%) and an amortisation period ranging from ten to 20 years.[8]

In its early years, the bank did not publish—or even, so far as is known, devise—a comprehensive statement of loan policy. The documents given to prospective borrowers[9] merely restate the provisions of the charter. The speeches of the president, however, give a clear enough picture of the bank's dominant preoccupations, if not of its policy. Foremost among these is what the president described, in a speech to Asian journalists in September 1968, as a belief that 'in the long run the creditworthiness, the efficacy and success of the ADB will depend on the extent to which it pursues sound development

1. Article 11.
2. Article 15(2).
3. Article 14(xiv).
4. Article 14(i).
5. Article 14(ii).
6. Article 14(iv, vi, vii, viii, xi, xiii, and xiv).
7. Article 15(1).
8. Annual Report for 1968, Appendix 1-IV, espec. Note 2.
9. E.g. *Operational Information*, ADB, 1967.

banking principles'.[1] In many other speeches, the president has emphasised the need to identify projects which can bear something approaching a commercial rate of interest.[2] In terms of sectors, the bank has shown a strong interest in agriculture, in transport and communications, and in the integrated development of the Mekong River basin, though these interests were not reflected in the loans it had made by the end of 1968. Its commitment to 'sound banking principles' would seem to give it a more natural bias towards manufacturing industry. The way in which this bias has worked out in practice is more easily explained in terms of an account of the bank's evolution.

4 Evolution

The Asian bank had a brilliant beginning. Alone among the three institutions considered in this study, it was not hampered at the outset by any kind of scepticism about its prospects. On the contrary, there was a general assumption that this was a sound and significant venture, which was most likely to succeed.

The backing of Mr. Eugene Black ensured for it the approval of other international financial institutions. More significantly, the backing of Mr. Black coupled with the election of Mr. Watanabe, in conjunction with the general but little publicised awareness among financial specialists that rates of return on investment in Asia are exceptionally high,[3] ensured the confidence of private financial corporations. This confidence was expressed at the inaugural meeting in Tokyo, in November 1966, by the presence of the representatives of some 60 commercial banks and other financial corporations, including more than 20 each from the USA and Japan, and eight from Britain.[4] Among the registered non-official participants, chambers of commerce and organisations such as the British National Export Council were also represented. It was a business occasion, and as such it received widespread attention in the international financial press.[5]

All the more awkward questions relating to the bank's establishment, such as that of its location, had been settled before the inaugural meeting took place. It was left to the governors to make a number of formal decisions, which included the election of the president and

1. From typescript supplied by the ADB.
2. For striking examples, see speeches in Manila on 21 April and 2 May 1967.
3. This, at least, is the general conclusion of such statistical analyses as have been undertaken by the OECD, and is confirmed by more detailed surveys which exist for UK and US overseas investment.
4. *Inaugural Meeting: Documents*, pp. 367-80.
5. See, for instance, the extensive coverage given by the *Financial Times*.

directors, the admission of Indonesia, the setting out of the terms for the admission of Switzerland, and a 10% increase in the bank's authorised capital stock.

One notable feature of the meeting was the large measure of agreement among the governors concerning the direction that their new institution should take. The priorities were summed up by the governor for Australia as being, first, the recruitment of competent staff, second, the adoption of 'strict economic criteria in its lending operations', third, co-operation with other international institutions, especially the World Bank, fourth, a restriction of the bank's operations to relatively small loans, with an upper limit of, say, $5m.[1]

The mood of the meeting was expressed by Mr. Watanabe, in his acceptance of the office of president, when he stated two 'overall objectives'. The first was the use of the bank as a catalytic agent for the mobilisation of investment funds, coupled with conservation of the bank's own resources. The second was the maximisation of the return on the capital which the bank invested.[2]

This apparent unanimity may have been deceptive. Specific policy suggestions came for the most part from the developed countries. In general, the governors representing developing countries confined themselves to rather broad congratulatory statements. A significant exception was the speech of the representative of Cambodia, in which he expressed certain 'misgivings'.[3] Another was the speech of the governor for Indonesia, in which he pleaded for a broader developmental approach.[4] This plea was subsequently reiterated much more forcefully by the Indonesian member of the Board of Directors, in a paper entitled 'The "Other" Significance of ADB', in which he placed the bank firmly 'within the context of the great cultural revolution now taking place'.[5] From such scraps of evidence it may be deduced that the developing countries of Asia, had they been given a stronger voice in the institution, would have imbued it with a rather different character.

The bank moved into temporary offices in Manila a few weeks after the inaugural meeting. At the opening ceremony, on 19 December 1966, Mr. Watanabe added a touch of colour to his view of the bank's future, when he expressed his 'ardent desire that the member countries will come to look upon the ADB as a kind of "family doctor" . . .'. The 'family doctor' theme was one to which he returned in subsequent speeches. Its origins are of interest. In the context of Asian development, it had previously been used in the early 1960s, by the makers of

1. *Inaugural Meeting: Documents,* pp. 216-17.
2. Ibid., p. 189.
3. Ibid., p. 230.
4. Ibid., p. 255.
5. Manuscript supplied by the ADB, dated 11 March 1968.

Japanese foreign policy, in order to describe the role for which Japan's economic superiority in Asia fitted it.[1]

The broader significance of these early statements is twofold. First, they provide a framework of thinking within which the bank's articles have to be interpreted. Secondly, and rather more unusually, they show how fully formed were the ideas behind the institution, before it had even begun operations. The first two years of the bank's life consisted essentially of no more than a series of measures by which these ideas were put into practice. In a sense, these measures were more purposeful, and more consistent, than those taken during the equivalent periods in the lives of the Inter-American and African banks. But they were also less experimental and therefore perhaps less creative. Whereas the early phases of the other two institutions were characterised by a searching exploration of the possible roles that they might perform, the Asian bank set about performing a role which had already been identified, and which few people seriously questioned. An appearance of momentum was maintained, largely through the work of an imaginative and highly professional information office.[2] But momentum took the form of consolidation rather than evolution.

This process of consolidation was concentrated in three main areas, each of which is considered separately below. First, in its broad approach to the problems of the region, the bank undertook a number of activities, including visits to member countries, regional surveys, and the convening of conferences, designed to provide a general framework for the formulation of specific policies. Secondly, in its loan operations, it concentrated on building up a stock of projects which conformed to 'sound banking principles'.[3] Thirdly, partly in order to accelerate this process, it began to provide technical assistance, in which the focus was mainly on 'the difficulty which many developing countries encounter in the identification and preparation of qualified project proposals'.[4]

In all of these activities, the bank was inhibited by an awareness of the limitations of its ordinary capital resources. It therefore devoted much attention to the question of special funds. The relevant decisions in this field, however, clearly lie outside the bank's direct control. This may be one reason why the continuing discussion of special funds has not visibly affected the consolidation process, but has been maintained

1. But the phrase had also been used by ECAFE, with the very different connotation of a prescriptive function.

2. In 1968, the first year of active loan operations, the information office put out 28 news releases. It has also issued a wide range of publications about the bank's activities, and taken other steps to ensure that journalists and similar people are familiar with the institution.

3. Address by the president to the first annual meeting of the Board of Governors, April 1968.

4. Ibid.

rather as a separate area of debate, illustrative of the attitudes of certain member countries rather than of the institution as a corporate entity.

The regional approach

At the inaugural meeting, Mr. Watanabe announced that he hoped shortly to visit all member countries, starting with the regional members. He stated his purposes as being to recruit staff and 'to gain a more comprehensive understanding of the prevailing economic climate in each country, and to provide an ear for each nation's views on the Bank'.[1]

By the end of 1967, these visits had been completed. At the same time, the bank had instituted a series of more extensive reconnaissance missions, which had covered Afghanistan, Ceylon, Republic of China, Indonesia, South Korea, Malaysia, Nepal, the Philippines, Singapore, Thailand, and South Vietnam.[2]

In the course of his visits, the president 'was made profoundly cognizant of the urgent need for agricultural development, including the development of fisheries'.[3] This was in fact an odd way of putting it. Over the preceding years, virtually everybody concerned with development in Asia had become 'profoundly cognizant' of agricultural needs, largely as a result of the failure of the monsoon in two successive years in India. Mr. Watanabe was presumably no exception, for Japan had played a leading part in focusing attention on the needs of this sector, and had already proposed that the bank should have a special fund for agricultural development. For an institution such as the bank, however, there remained the problem of how best to use the financial resources at its disposal, in a sector in which the problems were peculiarly complex, being social and political as well as economic and technological.

The bank's first response was to institute an Asian agricultural survey. A consultative committee met in July 1967 and proposed three objectives:

(1) to provide the bank with 'a suitable framework for its future operations';
(2) to inform the world at large of the opportunities in agriculture, by pointing to 'the possibilities of high returns on capital' and prescribing 'the specific manner in which advances in agriculture could improve, if not transform, the overall situation in individual countries';
(3) to identify priorities, problems, and opportunities.[4]

1. President's acceptance speech at the inaugural meeting.
2. Annual Report for 1967, pp. 7 and 16.
3. President's speech at the twenty-third session of ECAFE, April 1967.
4. Annual Report for 1967, p. 20.

The choice of this set of objectives was significant. Their attainment would clearly have resulted in a highly prescriptive document, which would have identified a particular mode of agricultural development. As such, it would have had social and political implications, and these implications would have had a bearing on the bank's style of operation in the agricultural sector.

Arguably, the survey that emerged[1] was indeed a document of this kind; but it was not proclaimed as such. Instead, it was presented as a straightforward professional analysis of Asia's agricultural problems. In view of the diversity of the region and the speed with which the survey had had to be completed, its status in these terms was open to question. Within the bank, the operative factor appears to have been a reluctance to admit that a document to which it attached such importance could possibly be a political document, in the sense of being prescriptive and subjective. Its reluctance to do so was perhaps intensified by the fact that the prescription adopted was one which happened to be already familiar, and which was associated in particular with the work of American agricultural economists in the South Asian sub-continent. The prescription was summed up by Mr. Watanabe thus:

> 'It is the considered opinion of the Survey that priority emphasis on the rapid adoption of these modern technologies can engender immediate impacts on agricultural growth. It urges development authorities—*and particularly this Bank*—to assist in importing the knowledge of these innovations, and the skills to employ them, to the farmer. The Survey also points up the important role of the market and the system of inputs distribution as necessary to assure the farmer sufficient quantities of production requisites, at a realistic price and at the time he needs them.'[2]

The political nature of such a prescription—in terms of the pattern of social progress which it envisages—is very clear. It is tempting, perhaps, to attribute the choice of such a prescription, with its emphasis on the market mechanism and responsiveness to incentives, to the American presence in the bank; and certainly one may detect in the survey reflections of American thinking on the agricultural sector. Reflections, however, are not necessarily the product of direct influence. In the use made of the survey—and that is the context in which its significance must be judged—the attitude of the bank's most powerful member was less significant than the institutional attitude of the bank itself.

As its name implies, the document was a survey rather than an original study. That is to say, it took as given a number of recent

1. *Asian Agricultural Survey,* ADB, February 1969.
2. President's address to the first annual meeting of the Board of Governors. Italics added.

innovations in agricultural technology, and focused attention on ways in which that technology might be applied in Asia's rural economies. This may have seemed the natural way for an institution such as the bank to approach the subject. Yet already, at that time, economists and others were beginning to ask questions about the social implications of such an approach. Indeed, one of the most notable studies of the political and social aspects of the development process, in the Indian context, had been written by an economist who had subsequently become a senior member of the bank's staff.[1]

Such questions had given rise to a sort of Copernican revolution in development economics. Instead of starting with certain assumptions about the state of technology, and then considering the application of that technology in differing societies, economists and other social scientists were beginning to focus attention on particular *societies* as the starting point, and to ask questions about the type of economic and technological framework that might be constructed on that social and cultural base.

The change of perspective was fundamental, and it was a change which was as much a product of the perceptions of scholars in the United States as had been the earlier focus on incentives and inputs. Yet it was reflected neither in the survey itself, nor in the use that the bank made of it. What was conspicuous in the bank's attitude was not the choice of one prescription rather than another, but rather an apparent unawareness of the highly prescriptive content of the view that it was formulating. This in turn must be interpreted as evidence that the bank did not see, or did not want to see, its inevitable prescriptive function, regarding itself as an agency for the transmission of a given technology, rather than—to use the bank's own propaganda phrase—as a source of 'Asian solutions to Asian problems'.

In this respect, it is significant that the conclusions which the bank drew from the survey, in terms of operational policy, were largely peripheral to the problem to which it had addressed itself—completion of existing infrastructure projects, and investment in the production of inputs and in processing plant.[2] If the Asian Agricultural Survey failed to provide the bank with a definitive statement of its regional approach to a regional problem, the explanation is surely to be found in the bank's unwillingness to take the political risks which such a statement would have entailed. Its 'Asian' solution *had* to be the same as everybody else's, non-Asian, solution.

With its next venture into a regional view, the bank was on safer and more conventional ground. In September 1967, representatives of

1. G. Rosen, *Democracy and Economic Change in India,* University of California Press, 1966. See, especially, Chapters 8 and 11.
2. President's address to the first annual meeting of the Board of Governors.

most of the countries in South-East Asia[1] met in Kuala Lumpur, where they formulated a request for a regional transport survey. A year later, the bank's Board of Directors approved the undertaking of such a survey, and a steering committee was set up, which consisted almost entirely of senior officials and academics from the developed countries and from international agencies.[2] Work was begun in 1969.

A significant comparison may be drawn between the Asian bank's movement in this direction and a similar movement in the African bank. Both institutions started with a rather broad approach to the task of regional integration, derived from objectives which were written into their charters. Both institutions fell back from that broad approach, which would have involved them in such highly political questions as the geographical distribution of productive capacity, to a narrower concentration on physical communications. There the comparison ends. The African bank found itself looking at roads and other projects which could be *justified* in multinational terms. The Asian bank found itself undertaking a survey, which served the purpose, after some procedural delay, of proclaiming its interest.

At the time of writing, it was too early to hazard any assessment of the potential significance of the transport survey in operational terms. Such evidence as was available suggested that the bank, while ready to proclaim an academic interest in regional integration, was rapidly drifting into a more national approach. In particular, its third venture into regional activities was suggestive. At the third regional conference of development banks in Asia, held in Tokyo in 1966, it had been suggested that such conferences should in future be held under the auspices of the Asian bank. Before accepting this responsibility, the bank consulted the institutions concerned. As a result of those consultations, it convened a conference of national development banks, to be held in Manila in July 1969. It was decided that the theme of the conference should be 'the identification, formulation, evaluation and implementation of investment projects'.[3]

It is difficult to regard this decision as anything but the final extinction of the bank's status as a regional institution.[4] The original concept of a financial organism, linked with other regional bodies, had been replaced by the notion of a purely technical agency, linked to financial institutions in other parts of the world, and providing an advisory

1. The countries represented were Brunei, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, South Vietnam.
2. ADB News Release No. 24/68.
3. Annual Report for 1968, p. 30
4. It may be appropriate at this point to raise the broader question of whether a financial agency can ever be an effective instrument for the promotion of regional integration. Its use in this context entails an assumption that the political will for integration already exists. For a theoretical discussion of the weaknesses of such an assumption, see G. Lagos, *International Stratification and Underdeveloped Countries,* University of North Carolina Press, 1963, pp. 55-61.

service to purely national financial institutions within Asia. The nature of that service was the transmission, perhaps even the imposition, of what passed elsewhere for acceptable financial practice.

As suggested in the opening section of this chapter, the bank might have found it easier to identify a concretely 'regional' role if it had operated primarily at the sub-regional level. It will be recalled that US backing was initially linked with the notion that the Asian bank would play a special role in South-East Asia, particularly in the development of the Mekong River basin. In 1969, however, the US Government asked the World Bank to take over this responsibility, allegedly on the ground that the task was too big for the Asian bank. Since the size of the Asian bank had been determined by the size of the proposed US contribution, and since the US contribution had been geared to an assumption that the Asian bank would play a central role in the financing of the development of the Mekong River basin, the switch of US support to the World Bank looks a little unkind. It makes more sense, however, if one takes into account the Asian bank's failure to establish a distinct regional character of its own. Given a choice between the World Bank and an institution which was in effect little more than a smaller and paler imitation of it, the USA naturally chose the more substantial original. The fact remains that it was a destructive decision.

Loan operations

The Asian bank opened its doors for business on 19 December 1966, less than one month after its inaugural meeting. It signed its first loan agreement just over a year later, on 25 January 1968. By the end of 1968, after two years in business, or one year of full-scale operations, it had committed a total of $43m, under seven loan agreements and 11 technical assistance agreements. Details of the loan agreements are shown in Table 2.

The bank's first loan was to the Industrial Finance Corporation of Thailand (IFCT). The sum involved was $5m, repayable over 15 years, and bearing interest at $6\frac{7}{8}\%$. The loan was to be used for onward lending to private companies in Thailand. By the end of 1968, a number of companies had benefited from this agreement, including ice and cold storage plants, a cardboard and strawboard factory, a cotton mill, and a kaolin processing plant.[1]

In the boom conditions which Thailand—or more accurately Bangkok—was enjoying at that time, as a direct result of the Vietnam war, returns on investment were exceptionally high, and the American presence in Thailand had brought a massive inflow of foreign exchange, just as a similar American presence had done in Japan at

1. Annual Report for 1968, p. 24.

Table 2 **Projects approved for financing by the Asian Development Bank, 19 December 1966—31 December 1968**

Country	Amount $m	Repayment[1] period (inc. grace period)	Date of signature	Project	Total cost of project $m	Additional source of external finance	Remarks
Thailand	5·0	Not fixed[2]	25.1.68	Industrial Finance Corporation of Thailand, for onward lending	—	IFCT had already received loans from the IBRD and the German Kreditanstalt für Wiederaufbau	Seven onward loans, amounting to $1·2m approved up to 31.12.68
Ceylon	2·0	15 yrs.	17.7.68	Tea factory modernisation programme	4·9	None	Loan made to central Bank of Ceylon
South Korea	6·8	15 yrs.	16.9.68	Seoul-Inchon Expressway	18·1	Early maturities amounting to $0·785m sold to commercial banks	A dual carriage-way toll road from the capital to the principal port
Malaysia	7·2	20 yrs.	23.9.68	Penang State water supply	13·7	Early maturities amounting to $0·285m sold to commercial banks	Expansion of supply system to meet rising industrial demand and population growth
Taiwan	0·4[3]	10 yrs.	30.11.68	Feasibility study and project preparation of the North-South Freeway	—	None	—
Pakistan	10·0	Not fixed[2]	16.12.68	Industrial Development Bank of Pakistan, for onward lending	—	See next column	This loan was explicitly intended to make up for a decline in aid from other sources[4]
Taiwan	10·2	12 yrs.	27.12.68	Chinese Petroleum Corporation: construction of new petro-chemical plant to supply synthetic fibre industry	23·0	Early maturities amounting to $1·75 sold to commercial banks	Part of a joint programme of Taiwan and South Korea for the co-operative development of their petro-chemical industries

Notes:
1. All loans up to 31.12.68 carried interest at 6⅞%.
2. Maturities to be fixed, separately, up to a maximum of 15 years, for each onward loan.
3. A grant of $100,000 was also provided with this loan.
4. ADB News Release Nos. 26/68.

Source: Asian Development Bank Annual Report for 1968, and ADB news releases.

the time of the Korean war. Under these circumstances, the Asian bank's decision to lend to the IFCT was clearly a sound one, in banking terms. Indeed, it would have been hard to find a more credit-worthy borrower in the whole of South-East Asia. But the decision also raises certain questions concerning the bank's social and economic priorities —in terms of the countries which it was most concerned to help, the sectors which it saw as crucial to its concept of development, and the people whom it expected to benefit most from the development process. One is told that it is pure coincidence that the bank's first loan was to such a 'bankable' institution, in such a 'credit-worthy' country. That is probably true, for the bank was obviously in a hurry to get some loan agreements signed, and the IFCT happened to have an application prepared. Such an explanation, however, reveals a curious lack of awareness of the political and symbolic significance of the institution's first loan. To the external observer, it seems natural to treat the bank's first loan as a significant indicator of future attitudes. Before putting any other interpretation on it, one would require convincing evidence of some clearly thought out countervailing set of priorities, or at least of a sustained attempt to formulate a view of the bank's particular role.

No such evidence is to be found. In the bank's loan operations, which are the most concrete demonstration of how the bank sees itself, one detects nothing that can be categorised as the bank's own original contribution. This might be interpreted as evidence merely of a properly cautious approach to the task of institution-building, and of a becoming modesty, were it not for a mass of contrary evidence which suggests that the bank is firmly convinced that no need for originality exists. In 1968, for instance, the president said :

> 'In this capital-hungry region, there is obviously no justification for bad or indifferent loans; and in the long run the creditworthiness, the efficacy and success of the ADB will depend on the extent to which it pursues sound development banking principles. The Bank is convinced that *any number* of sound projects can be identified and developed in Asia, even if they cannot be had on tap. In the long run, the region's economic progress will *hinge* on the number of such sound development projects that can be formulated and financed.'[1]

If one interprets these remarks only a trifle unkindly, what the president seemed to be saying was not merely that political and social development problems were no concern of the bank, but that they did not exist. There were only two problems—'capital hunger', and a lack of technical competence in working up a mass of available investment projects to the required standards.

1. President's remarks to a group of Asian journalists, September 1968. Text supplied by the ADB.

If such remarks represent the fundamental attitude of the bank—and frequent repetition leads one to suppose that they do—it is hardly surprising that the bank's loan operations offer so little evidence of any evolution in the bank's approach to the problems to which it is required by its charter to address itself. It may indeed be the case, as the president has suggested, that opportunities for profitable investment abound, and that the bank need only give a little help in project formulation for the loan applications to come flowing in: but those who participated in the bank's creation had presumably had something rather less passive in mind.

Technical assistance

In the bank's technical assistance activities, there is rather more evidence of continuing policy formulation than in its ordinary loan operations. One reason for this may be that relatively little guidance on technical assistance is contained in the bank's articles, in contrast to the very clear indications given of the expected nature of its financial role.

In the statement of the bank's functions, two main classes of technical assistance are identified: first, assistance in the co-ordination of policies, plans, and the utilisation of resources, and in particular the promotion of intra-regional trade; secondly, at a very different level, assistance in project preparation.[1] Beyond that, the only significant reference to technical assistance is a provision that technical assistance may be financed out of the bank's net income, and that the bank may also use for this purpose, in the first five years of its operations, up to 2% of its paid-in capital.[2]

In its first two years, the bank was able to finance all its technical assistance activities out of net income, supplemented by a special technical assistance fund to which several of the bank's developed members contributed.[3] It is worth noting in passing that the bank made a special point, in its annual report for 1968, of drawing attention to the readiness of its developing members, also, to make experts available for its technical assistance activities.[4] The bank's experience in this respect may be contrasted with the difficulties encountered by the African bank.[5]

Initially, the bank appears to have regarded its technical assistance activities as quite separate from its loan operations. The two types of activity were undertaken by separate departments, and the usual warnings were issued to member countries, to the effect that the provision

1. Article 2 (iii and iv).
2. Article 21 (vi).
3. See p. 82.
4. Annual Report for 1968, p. 8.
5. See pp. 120 ff.

of technical assistance did not in any way commit the bank to subsequent financing. The bank appeared to be inhibited by a reluctance to invite excessive claims on its limited ordinary resources.

The distinction between technical assistance and loan operations rapidly broke down, and this was recognised when, in March 1969, loans, technical assistance, and advisory services were brought together in a single operations department.[1]

By that time, three distinct categories of technical assistance had emerged. First, technical work in connection with the preparation of projects approved for bank financing was sometimes charged to the technical assistance account, even though such work was not normally included in descriptions of the bank's technical assistance activities. (Of the loans listed in Table 2, four emerged from technical assistance provided by the bank.[2]) Secondly, several of the bank's formal technical assistance agreements were explicitly 'sanctioned for the formulation of feasibility reports or detailed project reports for later consideration for possible Bank lending. . .'.[3] Finally, the bank undertook several more extensive studies or advisory commitments, usually addressed to particular tasks or to the role of particular institutions. Formal technical assistance projects undertaken by the bank up to the end of 1968 are listed in Table 3.

Table 3 Technical assistance projects approved by the Asian Development Bank, 19 December 1966—31 December 1968

	Country	Project	Amount ($)
1	Indonesia	Mission to study measures to improve food production	
2	,,	One agricultural adviser in the department of Agriculture	
3	,,	Two advisers on extension services for rice production	230,000
4	,,	A survey of rural credit	
5	Korea, South	Advisory mission to the Agriculture and Fishery Development Corporation	66,000
6	Laos	Formulation of an agricultural development programme to exploit the benefits of the Nam Ngum dam	221,000
7	Nepal	Survey for the development of air transport	66,000
8	,,	Advice to the Agricultural Development Bank	35,000
9	Philippines	Project formulation for a fisheries port in Manila Bay	225,000
10	,,	Improved irrigation water management	105,000
11	Taiwan	Technical assistance contribution to study of the North-South Freeway	100,000
12	Vietnam, South	Advice and training for industrial development financing institutions	89,000

Source: ADB, Annual Report for 1968, pp. 8-24.

The list of technical assistance projects given in Table 3 contains two noteworthy features. The first is the overwhelming concentration

1. ADB News Release No. 4/69.
2. Annual Report for 1968, Appendix 1-E.
3. Annual Report for 1968, p. 8.

on agriculture and fisheries, which accounted for nine of the twelve projects. The second is the concentrated effort that the bank had put into raising food output, and more particularly rice output, in Indonesia.

The sectoral concentration on agriculture arose, presumably, from the Asian Agricultural Survey. It is in marked contrast to the pattern of loan operations, in which the bank's principle is allegedly that 'it will be guided not by an a priori emphasis on one or the other sectors of economic activity, but by considerations relevant to a rational choice as between different investment opportunities; it would follow that, over a period, the range of the Bank's activities in the different economic sectors would become substantially diversified'.[1] In practice, as is shown in Table 2, the bank's early loan operations showed a disposition in favour of manufacturing industry and transport communications.

It is significant that the findings of the agricultural survey were first reflected, not in the bank's central loan operations, but in its more peripheral technical assistance activities. Clearly, there was a danger here that loan operations and technical assistance would become divorced from each other—that the bank's prescriptively developmental function would become confined to the provision of advice, while in the main business of providing finance the bank would continue to apply the more retrograde type of conventional banking criteria.

This danger appears to have been seen by the staff of the bank, and may have been a contributory factor in the decision to combine loan operations and technical assistance in a single department. It remains to be seen, therefore, whether the bank will eventually succeed in bringing its loans and technical assistance activities together within a single coherent framework of operations.

Certainly, it appears likely that the bank's operations will include a growing proportion of loans to the agricultural sector. In noting this probability, however, it is also necessary to record two relevant pieces of evidence which are suggestive of the form which such a trend might take. The first is the already observed tendency to equate technical assistance with project preparation. Of the projects undertaken up to the end of 1968, even those which were not explicitly intended to lead to bank financing were for the most part rather narrow in focus, related to particular institutions or schemes. It seems likely, therefore, that technical assistance will decline in status, rather than rise, in the bank's thinking, coming to be regarded as a purely technical service which the bank provides as a by-product, rather than as an exploratory activity which may ultimately lead to a change in the bank's perceived objectives. Secondly, it is notable that the bank's approach to agri-

1. Annual Report for 1967, p. 17.

culture resembles its approach to industry, with an overwhelming emphasis on the direct return on investment. Even in agriculture, therefore, the bank is likely to remain confined to large-scale, commercial farming, and may find difficulty in addressing itself to the more widespread and fundamental problems of the subsistence sector.

The bank's disposition to adopt a restricted focus is clearly illustrated in its activities in Indonesia. This was something of a test case for the bank. In 1967, Indonesia was already the object of a major concerted international exercise in development financing. But that exercise suffered from a lack of continuity in its organisation, and from some confusion in its long-term objectives.[1] There was a clear need for the exercise to be given a stronger institutional base. The institution with the greatest experience in international co-ordination was the World Bank, but it was widely assumed that the World Bank was reluctant to become too heavily involved in this case, for several reasons, such as a desire not to trespass in a field where the IMF was already active.

There was a case, therefore, for arguing that the Asian bank should take on an enlarged role in Indonesia. In particular, the peculiarities of Indonesia's recent political history had created a situation in which there would be some advantage in allocating the co-ordinating role to an Asian institution. Even without the need for co-ordination, the potential wealth of the Indonesian economy, Japan's interest in it, and its overall importance in the political economy of South-East Asia might have been taken as a basis on which the Asian bank could reasonably mount a major operation. It is noteworthy that the World Bank, for instance, while adopting a more limited role than that of overall co-ordination, did send a large permanent mission under the direction of Mr. Bernard Bell, which constituted a major departure from the World Bank's normal practice. By comparison with that expansion of interest, the Asian bank's activities in Indonesia appear unduly limited. Rather than address itself to the needs of the Indonesian economy as a whole, the bank selected for itself a restricted role, related primarily to its own probable future lending activities. It thus isolated itself from the main stream of Indonesia's external development financing, and appeared to be voluntarily adopting a rather peripheral position. This choice could be justified in terms of the limitations of the bank's resources, the need for a slow and careful approach to the task of institution-building, and so on; but it could not be justified in terms of the political rationale which had originally underlain the creation of an 'Asian' institution.

The Indonesian case is illustrative of the broader trends which have

1. For a fuller discussion of this operation, see J. Lambe, 'Indonesia—rescued but not saved', in *Economisch-Statitische Berichten*, No. 2070, 13 November 1968, reprinted by the Overseas Development Institute.

been identified here. In its approach to technical assistance, the bank has certainly evolved, but it has been evolution in the direction of limiting its ancillary activities more and more narrowly in the service of its own operations, not of using such activities as a means of leading the bank into new paths, of expanding its area of interest, or of constructing and giving effect to its Asian identity.

Special funds

In the first formulations of detailed proposals for the establishment of an Asian bank, the question of special funds was treated as a matter of secondary importance. The first formal report, for instance, contained the following statement: 'Having regard to the fact that, at least in the initial years, the soft loan operations may not assume large dimensions, the Group feels that, for some time at least, there is no need to have any separate soft loan institution.' [1]

This attitude reflected the particular composition of the expert groups entrusted with the preparatory studies, rather than the views of Asian governments. At the inaugural meeting and in subsequent discussions, the representatives of developing countries repeatedly emphasised what they saw as a crucial need for the establishment of special funds.

In so far as this need was reflected in the preparatory discussions, what was envisaged was a fully multilateral fund, freely available 'for either general or specific purposes' in the bank's operations, and subject to the minimum of restrictions on procurement.[2] In the deteriorating aid climate of 1966, however, the incorporation of such a fund in the bank's structure would have required far more forceful pursuit than was deemed appropriate by the bank's originators. In the event, the bank was given the power to establish a special fund for soft lending out of its own resources and to accept from other sources the administration of trust funds, provided that these 'are designed to serve the purpose and come within the functions of the Bank'.[3] From the outset, therefore, it was assumed that special funds would have limited and specified purposes. The alternative possibility, which would have been to equip the bank with a general purpose fund modelled on the International Development Association, as a major element in the bank's ordinary operations, had been closed off at a very early stage.

Once the bank was in business, the need for special funds was perceived more clearly, and the pursuit of such funds became one of its major concerns. The question was discussed by the Board of Directors in at least one meeting out of every four. The president took every opportunity to raise the question in his public speeches, and on several

1. Report of the Working Group of Experts, para. 48.
2. Report of the Consultative Committee, para. 42.
3. Article 19 (1).

occasions he made it his main theme. Conspicuous among such occasions was the second ministerial conference for economic development in South-East Asia, in April 1967, the significance of which lay in two facts, first, that it was a political conference, secondly, that its geographical focus was on a clearly defined sub-region.

The president's appeals for funds, however, were generally couched in rather vaguely wishful terms, which did not lead on to firm, comprehensive structural proposals. 'We, therefore, will actively seek . . .' (26 November 1966). 'I ardently hope . . .' (19 December 1966). 'We will eventually be called upon . . .' (24 January 1967). 'Thus, we are determined to actively solicit . . .' (10 April 1967). These are typical examples. Furthermore, mention of special funds was usually accompanied by a *caveat* to the effect that 'we must test our mettle in the arena of conventional lending, before we shoulder additional responsibility' (24 January 1967), and that 'hard loans are the material of which any bank's foundation must be constructed' (26 November 1966). It would be difficult to interpret such remarks as constituting an urgent and unequivocal commitment to the pursuit of special funds as a major feature of the bank's activities.

With the president playing such a passive role, it was clear, from the composition of the Board of Directors, that the initiative would shift to the developed countries. Among these, a sharp divergence soon appeared between the two major shareholders, the USA and Japan, for which the bank was a significant instrument of policy, and the smaller shareholders, whose commitment to the institution was derived from more general principles of support for multilateral agencies. The Americans and the Japanese soon made it plain that they regarded special funds as little more than a thinly disguised form of bilateral finance, administered for purposes and on conditions which fitted their own national objectives. Also, as likely major contributors, they wanted to minimise the cost to themselves. The most extreme position was taken by Japan, which tried to insist, not only that its contributions should be tied to Japanese goods and services, but also that the proceeds accruing from repayment of loans financed from Japan's contribution should be tied to Japanese goods and services in perpetuity.

The main opposition to this restrictive approach came from a group of smaller developed members, led by Canada. At the first annual meeting of the Board of Governors, the Canadian alternate governor stated his government's view in the following terms:

> 'In this context, it would be in order to point to specific issues and the choices open to us. For instance, consideration is now being given to the establishment of a special fund for agriculture, another for transport, a third for technical assistance and a fourth which is called multipurpose fund. Within these funds, there could be other limitations, such as geographical or sectoral restrictions on the use

of contributions. If implemented, these arrangements would reflect the view of individual members on development priorities within the region. As a result, there would be, almost inevitably, less cohesion in the thrust of the Bank's developmental activities. It would make the Bank less of a focal point for concerting priorities and it might have adverse implications in terms of administrative efficiency and simplicity. It would certainly be desirable that no restrictions be placed on the flow of resources between funds if required to finance worthwhile projects. It follows that the use of contributions to Special Funds should be subject to the general objectives and priorities of the Bank rather than those of individual contributors. For our part, we will follow these precepts and make available the entire Canadian contribution for general purposes.' [1]

Canada was supported in this position by Britain and the Scandinavian countries, all of which were represented by a Canadian on the Board of Directors, and by the Netherlands, whose representative explicitly associated himself with the Canadian view cited above at the first annual meeting.[2] But the weight of Japanese and American influence was difficult to resist.

It will be recalled that the original basis of American interest in the bank had been the desire to construct a long-term development policy in South-East Asia, related, in particular, to the development of the Mekong River basin. This was also a major area of interest for Japan, which had convened in Tokyo, in April 1966, a conference of South-East Asian ministers. That conference was followed, in December 1966, by another Japanese-sponsored conference, on agricultural development in South-East Asia. Japan then asked the Asian bank to set up a special agricultural fund, indicating that its own contribution might be in the region of $100m.

A few weeks later, President Johnson, in his State of the Union message to Congress, announced that he would seek authorisation of a US contribution of $200m to regional programmes, and suggested that this sum should be assigned to the Asian bank. In September 1967, a formal proposal was submitted to Congress, backed by a report of the National Advisory Council on International Monetary and Financial Policies,[3] which listed as activities deserving of support:

(1) the special agricultural fund;
(2) the Mekong development programme;
(3) a proposed South-East Asia regional transportation and communication fund;
(4) 'on a limited case-by-case basis', special funds for other purposes.[4]

1. Summary of Proceedings, pp. 30-31.
2. Ibid., p. 54.
3. 90th Congress, 1st Session, House Document No. 166.
4. Ibid., pp. 9-12.

Both Japan and the USA asked that their contributions should be used primarily for projects in South-East Asia.[1]

The trend of American and Japanese thinking appears not to have been resisted by the bank. In a letter to Mr. Eugene Black dated 14 August 1967, the president seemed in fact to endorse the proposals that had been made,[2] and on other occasions he made it clear that he recognised the desire of contributors to tie their funds to specified areas and uses.

Progress along these lines, however, was hampered by growing Congressional reluctance to authorise added US commitments in South-East Asia. There was also some natural confusion concerning the rationale of President Johnson's proposal. In June 1968 Congress refused to pass the necessary legislation. To add point to the rebuff, a few days later Congress authorised an *additional* $300m for the Inter-American bank's well established Fund for Special Operations. Within the bank, it was assumed that a US contribution would eventually be forthcoming, perhaps from the new administration which took office under President Nixon in 1969, but it was clear that this initial failure would result in attempts to tie the American contribution even more specifically to American purposes.

The special agricultural fund was formally constituted at the end of 1968, with an interim contribution from Japan equivalent to $20m. Two weeks later an agreement was signed with Canada, under which the bank's multi-purpose special fund would receive $5m a year for five years. Both these contributions were tied to the contributor's goods and services. Other contributions promised during 1968 included $2m from Denmark for the special agricultural fund and $1,100,000 from the Netherlands for the same purpose.

It is significant, perhaps, that the bank was more successful in securing special contributions for technical assistance. By the end of 1968, the bank had received contributions for technical assistance from Britain, Canada, Germany, Japan, and the USA, and offers had been received from Denmark and Finland. The total amount available from such sources for technical assistance was not more than $2m, but there was no reason to believe that this sum could not be augmented whenever necessary. Obviously, therefore, one reason why the bank encountered little difficulty in establishing a technical assistance fund was that the sums involved were small. It is reasonable also to suggest, however, that another factor was that the rationale for a technical assistance fund was clear, whereas the establishment of other funds raised issues of principle concerning the bank's multilateral status and concerning its preferred presentation of itself as primarily a bank-

1. Ibid., p. 13, and Annual Report for 1968, p. 43.
2. Ibid., p. 25.

ing institution. The delays in the establishment of special funds are not exclusively attributable to a deteriorating aid climate or to hostility in the US Congress.

5 Prospects

The Asian bank is the least idiosyncratic of the three institutions with which this study is concerned. From a legal point of view, the bank's charter is commonly regarded as a more polished document than the charters of its two sister institutions or of the institutions which make up the World Bank group, for it is free both of the ambiguities of the former and of the rigidities of the latter.

As the last of the three institutions to be set up, the Asian bank was able to draw on the accumulated financial, legal, and institutional experience that had gone into the making of its predecessors. In a sense, therefore, it represents the perfection of a particular institutional type. It is perhaps symbolically appropriate that Mr. Eugene Black, the man who in the 1950s made international development financing respectable, should also have been closely associated, in the creation of the Asian bank, with the completion of a global pattern.[1]

The smoothness with which the bank was brought into being continues to constitute one of its strengths. In its early years, the Asian bank was assured of the confidence of the international financing community and of the nature of its own role. Comparable institutions, in contrast, have had to establish confidence and to seek a role, and that has sometimes been an arduous process.

Such self-assurance, however, was also a potential source of weakness, for it obscured the possibility of alternative approaches. In fairness, it must be admitted that the bank was not alone in its conviction that it was on the right lines. That view was shared by participants and observers, including the author of this study.[2]

1. The significance of this link should not be exaggerated. See footnote on p. 45.

2. See, for instance, J. White, 'Development Banks—Africa and Asia Compared', in *West Africa,* No. 2587, 31 December 1966, which contained the following assertions. 'Because of its structure, the Asian bank is an institution within which aid-givers and aid-receivers are bound to find themselves in a common enterprise, in which they work out common objectives, in which the clashes of interest are gradually and arduously resolved by the process of working together. . . .' 'There is no doubt that Mr. Watanabe is right in supposing that his institution will have to establish its operational independence if it is to make use of a variety of additional funds without falling victim to the special interest of the donors. . . .' 'Fundamentally . . . the primary source of its strength is that it contains *within itself* the means to encourage a deepening relationship between those who need finance and those who can provide it, and that it has, in Japan, a dominant member who is prepared to give it political and economic drive.'

Two years of operations are perhaps an inadequate basis on which to judge the appropriateness of the bank to the needs it was created to meet. Nevertheless, a tentative and preliminary assessment can be made. Some of the practical difficulties encountered by the bank have been discussed in the preceding pages. Here we are concerned with a more general question. To what extent has the ideal type represented by the Asian bank proved itself relevant to the needs of the region that it serves?

The conclusions to be drawn from the preceding sections can be summed up very briefly. The Asian Development Bank is certainly a bank, and is not to be criticised for seeking to achieve a high standard in being what it is. But it is not in any significant sense Asian, and in any case there is some doubt whether the term 'Asian' in this context has any meaning. If not Asian, is the bank, as a development bank, at least an institution of the developing countries? The evidence presented here suggests that it is not, that the influence of the developed countries is so overwhelming that the bank does not constitute an effective partnership, and that the bank's view of the development process is at best a limited and partial view, derived from the developed countries' experience rather than from the developing countries' felt needs and aspirations.

It would be a mistake to attribute these features of the bank to particular personalities, or to the position taken by particular countries. They are rooted in its capital structure and in its given functions. Within that framework, the apparent historical accidents which have been noted here must be seen as the inevitable components of a natural sequence of events.

If the Asian bank represents an ideal type, by the same token it is not specifically tailored to Asian conditions. To find a particularly Asian role for itself, therefore, it will have to select from within a range of functions those particular tasks which will give it coherence and identity in an Asian context. This is in any case the natural course, given the complexity and diversity of the Asian region. From the list of such tasks, we select four, but it must be emphasised that the list is not a finite one:

(a) special attention to the overall position of the smaller Asian countries;
(b) promotion of physical projects which favour regional integration;
(c) political leadership in regional economic policy questions, such as intra-regional trade;
(d) exploitation of its developed membership as a means of augmenting the flow of aid to the region.

So far as the smaller countries are concerned, the bank has already shown a disposition to concentrate its *projects* in such countries, and, on a limited scale, its technical assistance. But it has shown a great reluctance to become involved in broader macro-economic country activities, which, as the World Bank has found, would rapidly lead it into a situation in which political considerations are uppermost. The situation is complicated by the great extent of the Asian region, and the fact that the smaller countries are for the most part peripheral to the two great political entities of the region, which means that concentration on such countries would scatter the bank's resources rather widely.

The promotion of projects which favour integration looks more promising. In this context, the area most frequently mentioned initially was the Mekong River basin. It will be recalled, however, that responsibility for the Mekong River basin was subsequently allotted to the World Bank.[1] Besides, the Asian bank is allegedly an Asian bank, not a South-East Asian bank, and apart from South-East Asia it is difficult to see where the sub-regional approach could become central to the bank's perspective. The difficulty here lies once again in the fragmentation of the Asian region. There are useful sub-regional tasks to be performed, but they fall no more naturally within the orbit of an institution serving the whole of Asia than within the orbit of an institution serving the whole world. It is difficult to see in such tasks any particular feature which would mark out the bank's Asian identity.

On broader policy questions, the bank has already taken some initiatives. But two factors prevent it from integrating those initiatives into a coherent whole. The first is the extent to which it has put its central emphasis on project appraisal and project finance. The second is its reluctance to admit that discussion of policy questions commits it to a political role.

That the bank should develop as a channel for a significant increase in aid looks more natural, given that it is in fact an aid-giving countries' agency. But the conflict between the precepts of aid and the precepts of sound banking principles renders it unlikely that the bank would ever pursue such a course with enthusiasm, as is shown by its half-hearted attitude towards special funds.

To develop a functional concentration along these lines—and to develop it in a spirit of experiment and exploration—would go a long way towards giving the Asian bank the distinct identity and the innovative role that it needs if it is to evolve as a key point in the strategies of Asian development. In particular, the development of such functions would give the Asian bank a specific and separable claim on the developed countries' resources, as distinct from the wider claim of multilateral agencies in general, among which the World Bank is likely to continue to take priority. A more difficult question, however,

1. See p. 72.

is whether such a role would serve the deeper purposes with which this study is concerned, the development of a set of characteristically Asian responses to the developmental challenge. That question cannot be answered in detail by a non-Asian. To delineate such a response is precisely that creative act which is the central political function of a regional bank. To try to define it in advance is to offer as a premise what ought to be the conclusion that emerges from the regional bank's political perspective and operational experience.

In general terms, however, we can suggest a line of enquiry which might meet the case, though it is a line of enquiry the adoption of which is almost certainly precluded by the bank's style and structure. In some Asian countries, notably in South Asia, there is growing scepticism concerning the relevance of Western experience to Asia's social, cultural and economic traditions and present situations. There is a long-term danger that a healthy questioning of established practice may turn into a bitter rejection of all that the West still has to offer. If the Asian bank could serve as a bridge between the two patterns of thought, applying the questions now asked by Asian politicians, journalists, and academics to the evolved experience of Western developed societies, then both Asia and the West might gain. The fulfilment of such a function would be very close to the aspirations from which the notion of regional banks sprang. It would be very far, however, from the functions which fall naturally to the ideal type which has finally evolved. In the wide perspective of what is likely to happen in Asia now and over the next fifty years, it is difficult to attribute to the Asian bank the historical significance attached to it by its creators and by its current exponents.

3 The African Development Bank

1 The African Environment

A regional institution which sets out to promote the development of Africa has to work within the rather narrow limits imposed by two linked but none the less conflicting factors. The first is Africa's extreme dependence on and vulnerability to decisions taken by the developed countries, and in particular by the former colonial powers. The second is the widespread tendency in Africa to see this dependence as the principal obstacle to healthy and speedy growth.

To take the standard comparative measure adopted in official international statistics, African countries as a whole receive twice as much aid *per capita* as Asia and Latin America.[1] They receive aid for a wider range of purposes, including budgetary support in many cases, and on relatively soft terms. The fact that they receive this favourable treatment[2] is attributable to the special relations which they have maintained with their former rulers, just as the favourable treatment accorded to certain East Asian countries in the 1950s was attributable to a special relationship with the USA.

With this exceptionally favourable treatment, however, goes an exceptional degree of dependence. Quite apart from dependence on a continuing inflow of external resources for development expenditure, and in some cases for the recurrent budget, Africa relies heavily on its sources of aid for the provision of skilled personnel. In 1965, Africa accounted for 72% of all technical assistance personnel supplied by OECD countries.[3] A significant number of these, perhaps 15,000-20,000 out of a total of 66,561, were integrated into the civil service in ordinary operational posts[4]—a form of technical assistance which other developing countries regard with suspicion and which the bilateral aid-givers may find politically embarrassing. Equally significant is the number of expatriates teaching in African schools and universities. In

1. Development Assistance Committee, *1968 Review,* Table 14, and OECD, *Geographical Distribution of Financial Flows to Less Developed Countries.*
2. One could argue, of course, that it is misleading to talk of 'favourable treatment' except in relation to need, and that Africa's 'needs' are particularly large. There is no evidence to suggest, however, that the relatively large amounts of aid *per capita* that Africa has received are the result of such a refined calculation on the part of the developed countries.
3. OECD, *The Flow of Financial Resources to Less Developed Countries, 1961-1965,* Figure 9.
4. Ibid., p. 122.

1966, 88% of all teachers supplied by OECD countries under technical assistance were in Africa.[1] Technical assistance, in addition to supporting the administration of today, is helping to shape the generation that will administer Africa tomorrow. The fact that Africa receives so much of its aid in the form of technical assistance—approximately one-third of the total—also suggests that the comparison made in the preceding paragraph needs to be qualified. In terms of financial assistance alone, the commonly accepted picture of Africa as the favoured continent is open to question.

Similar imbalances and dependences occur in the two other principal sources of external finance—private investment and foreign trade. The private sector in many African countries exhibits the typical colonial pattern, with a heavy concentration in plantations and mining; and the smallness of African domestic markets makes escape from this pattern difficult. As a result, foreign private investors are prominent in the private sector, the main source again being the former metropolitan power.[2]

Approximately 90% of Africa's total exports go to developed countries, a higher proportion than from any other region of the world. The influence of the colonial past is seen again in the concentration on Western Europe, which takes 69% of Africa's exports.[3] For nearly half of the countries of Africa, more than 50% of exports are accounted for by a single commodity.[4] Exports are a high proportion of gross domestic product, about 20% for Africa as a whole, rising in some countries to more than 40%.[5]

These well known facts need to be assembled and rehearsed here, since they constitute for any international development institution operating in Africa a highly restrictive political environment. In the short run, few African countries would sacrifice the immediate advantages of their relations with the former metropolitan powers for the less certain benefits of a changing institutional pattern. They are therefore unlikely to accord to any international institution a central function in the mobilisation of resources, such as has been accorded to the World Bank by certain countries in Asia. Yet in the long run the governments of African countries share an uneasy suspicion that these bilateral relationships could turn out to be self-perpetuating and they look to international institutions for a way of escape from their depend-

1. Development Assistance Committee, *1968 Review,* Table IX-5.
2. Statistics concerning foreign private investment are notoriously unreliable, but this impressionistic judgement is confirmed by such tentative estimates as have been made by the OECD and the UN.
3. M. Zammit Cutajar and A. Franks, *The Less Developed Countries in World Trade,* ODI, 1967, Table 4.
4. Ibid., Appendix E.
5. UN Economic and Social Council, *Economic Conditions in Africa in Recent Years,* E/CN.14/435 (1968), pp. 23 and 119.

ence. It is therefore exceptionally difficult for such institutions to devise a framework of co-operation with the bilateral donors, since the long-term political pressures militate against any such attempt. The founders of the African Development Bank, as will be shown,[1] were concerned primarily with the long-term objective of independence. The staff of the institution, when it had been set up, found that they had to contend with the immediate reality of the need to co-operate with those countries which were overwhelmingly Africa's main sources of aid. In the early stages, what was emphasised was the principle of 'additionality', the principle that the bank should bring additional resources to Africa in order to finance projects of the kinds that the bilateral donors were disinclined to favour; and there was a strong emphasis on the role of the bank in welding Africa into a single, economically independent continent.[2] Not long after the bank had begun operations, however, the staff were pleading with member states not to treat it as lender of last resort, to bring their projects to their own African institution instead of always going first to their bilateral sources of aid.[3]

The dilemma is common to many ex-colonial countries. Essentially, it consists of the conflict between rejection of the colonial inheritance and the inability to escape from the criteria of that inheritance in assessing its immediate continuing benefits, or apparent benefits. An international financial institution operating in Africa, however, is operating in an ex-colonial *continent*. In this environment, the dilemma becomes more complex, manifesting itself in three distinct forms. First, the institution is required to serve a mythology of independence on behalf of countries which in practice operate in accordance with the reality of dependence. Secondly, its contribution to increased independence is supposedly the provision of additional resources, yet these resources must ultimately come from the countries on which Africa depends. Finally, in order to obtain such resources, it must operate in accordance with the developmental criteria generally approved in developed countries, while its role as a promoter of independence compels it to assert that at least some of the criteria applied by the developed countries are inappropriate.

This pattern of conflicting needs and contrasting interpretations of those needs gives rise to a number of more specific pressures. In pursuit of the long-term pan-African objective, a financial institution is likely

1. See Section 2 of this chapter.
2. *Agreement Establishing the African Development Bank,* Articles 2 (a) and (c), and 17 (c). See also the debate on these articles at the Conference of Finance Ministers, Khartoum, 1963.
3. A year after the bank opened its doors for business, the president, speaking at the third annual meeting of the Board of Governors, said there was 'still a general tendency for member countries to approach first the traditional sources of finance without giving sufficient consideration to the possibility of ADB's assistance'.

to give special attention to the possibility of multi-national or regional projects; and in pursuit of the strengthening of the domestic sector of African economies, in the context of a social structure which lacks, or which has been prevented from developing, a strong entrepreneurial class, it is likely to give special attention to agriculture and to small-scale industrial financing. It needs no lengthy analysis of African conditions to show that these are precisely the areas in which other development finance institutions, in the light of past experience, are likely to be looking for projects, though the underlying perceptions which give rise to such a scale of priorities vary widely. All three areas, however, are ones which require some modification of the traditional rules and conventions which govern project selection.

Because of its need to secure additional external resources, and therefore to secure the confidence of the developed countries, the institution is under pressure to advance cautiously, and to justify its project selection in terms of criteria which it knows to be acceptable to the developed countries. If it does so in a convincing manner, however, it is likely to find itself competing instead of co-operating with the bilateral aid-givers, since it is operating precisely in the area in which they are trying to find projects for themselves. Under these circumstances, the reality of Africa's fragmented dependence on bilateral aid is likely to overlay the ideal of a united and economically independent continent. In short, the traditional relationships will prevail.

In its political aspects, this is a problem shared by all international institutions in Africa. Essentially, it is the problem of institution-building in the African environment. For a development institution, the purpose of institution-building is to construct a firmer base on which to evolve prescriptions appropriate to the political, economic, and social aspirations of African countries. For a development *finance* institution, the fulfilment of that purpose is made much harder by the fact that its strength is to a large extent a function of the financial resources at its disposal. In the unfavourable aid climate of the late 1960s, the mobilisation of external resources became more difficult, and financial institutions became more vulnerable to the aid-givers' whims. Given the favourable treatment already accorded to Africa, the aid-givers were unlikely to give high priority, in allocating any additional resources that might become available, to an African international institution, and a relatively new and untested one at that. Given the political environment of Africa, there was little prospect of bringing the bilateral resources already available more directly within an international institution's area of influence.

The problem is soluble, but the solution rests on the ability of the institution and of its members to take a series of rather risky political decisions. Clearly, the African environment presents the African bank with three broad tasks, which appear naturally in the following order :

first, the mobilisation or consolidation of resources; secondly, the use of those resources to acquire a central position in African development financing; finally, the use of that central position to devise and propagate new prescriptions appropriate to African aspirations. Less clearly, but just as significantly, the African and global environments in combination put pressure on the bank to take those three tasks in the opposite, and wrong, order.

2 The Origins of the African Development Bank

The African Development Bank, like the Asian and Inter-American banks, was shaped largely by the historical circumstances which led to its creation. But there is one important difference. Whereas the effective perceptions in the creation of the other two banks were those of the developed countries, the African bank was shaped almost exclusively by the way in which Africans themselves perceived their needs and their place in the broader global environment. In Section 5 of this chapter, it will be shown that this feature may ultimately prove to be the African bank's greatest strength.[1] In the immediate context of Africa's external dependence, however, the bank and its African member states have had to pay a high price for their desire to do things in their own way, including, perhaps, frustration of the desire itself.

In our account of the origins of the Asian bank, it was shown that three external factors prevailed: first, the need of at least two developed countries for an alternative channel through which to provide finance; secondly, the unwillingness of the developed countries as a whole to allow the use of that channel to lead to a significant increase in the total flow of resources; thirdly, the paramountcy of a particular view of the role of an international financial institution.[2] The prevalence of these factors was the outcome of a desire to *escape* from certain political commitments or restrictions.

In our account of the Inter-American bank, it will be shown that only two external factors prevailed: first, the flood tide of an expansionist mood in the international aid effort; secondly, the desire of the United States to find an appropriate channel for the application of some highly experimental political prescriptions in Latin America, which would have been difficult to apply exclusively in direct bilateral

1. See p. 131.
2. See pp. 40 ff.

relations.[1] The prevalence of these factors was the outcome of a desire to enter into a political commitment which had previously been neglected.

The motive force behind the African bank, in contrast, emanated from an African need. In the late 1950s, an attempt had been made to expand the role of the United Nations in development financing, by means of a proposal to establish a Special United Nations Fund for Economic Development. This proposal had been deflected by the creation of the International Development Association as a soft-loan fund within the World Bank group, where weighted voting gave the principal subscribers a controlling say in the use to which their resources were put. For the African countries, most of which were to attain independence in the next few years, the failure of the SUNFED proposal was particularly disappointing. They had looked to the United Nations, with its principle of equal voting rights for all members irrespective of size of contributions, as the one forum in which they could enter into the international development debate on more or less equal terms. Their position differed fundamentally from that of other developing countries, most of which had either succeeded in making an independent place for themselves in the pattern of international relations, as India had done, or had come to some sort of accommodation with one or another or both of the great powers.

At the All-African Peoples' Conference held in Tunis in January 1960, it was proposed that a special development fund might be set up for Africa. A resolution was adopted in favour of the 'setting up of an African investment bank to promote development projects'. The proposal was taken up again at the third session of the Economic Commission for Africa, in February 1961. The ECA unanimously adopted a resolution requesting its executive secretary, Mr. Robert Gardiner, 'to undertake a thorough study of the possibilities of establishing an African Development Bank and to report to the Commission at its next session'.[2] The executive secretary initiated a number of studies, enquiries, and consultations, and he assembled a panel of experts to write a report. For most of the next three years, Mr. Gardiner was the dominant figure in the drive to get the bank established. He drew on the resources of the ECA and of the UN Secretariat in New York to provide the necessary staff, and he was responsible for several crucial initiatives which carried the proposal forward. During periods when Mr. Gardiner was away, Mr. Arthur Ewing, a member of the ECA secretariat, kept up the momentum. Another member of the ECA secretariat who played a large part in these preparations was Mr. G.

1. See pp. 146 ff.
2. Resolution 27 (III) adopted by the ECA at its 50th plenary meeting on 16 February 1961.

Mancini, who was subsequently appointed secretary of the bank when it came into being.

The effect of this shepherding by the ECA was twofold. First, it resulted in the retention of the original concept of SUNFED, a flexible development fund which would be controlled by the developing countries, even though the developed countries might provide the bulk of the resources. Secondly, it gave rise to a fear that this fund would in effect be controlled by the ECA, thus giving the Commission greater influence than most African countries were prepared to accept. As with the Asian bank, therefore, a conscious effort was subsequently made to remove the African bank from the Commission's direct sphere of influence.[1] One of the results of this was that the original concept of a development fund faded, perhaps more sharply than if the need to weaken the link with the ECA had not arisen.

The ECA's panel of experts submitted a report,[2] which was considered by the Commission at its fourth session, in February and March 1962. The report foresaw some severe difficulties, but recommended that the attempt to establish the bank should be made. The Commission therefore appointed a committee consisting of the representatives of nine member countries, to complete the necessary studies and enquiries, and to draft a charter.[3] It is noteworthy that already at that early stage the committee was explicitly required to make recommendations concerning the bank's location, which is an indication of how large this subsequently troublesome issue loomed in the minds of those concerned.

The countries represented on this Committee of Nine were Cameroun, Ethiopia, Guinea, Liberia, Mali, Nigeria, Sudan, Tanganyika, and Tunisia—a group which drew in representatives from both sides of most of the important lines of division in Africa; anglophone/francophone, north/south of the Sahara, the division between the so-called 'Monrovia' and 'Casablanca' political groups,[4] and so on. The chairman was Mr. Romeo Horton, President of the Bank of Liberia. The Sudan was represented by Mr. Mamoun Beheiry, then Governor of the Bank of Sudan, who subsequently became the African bank's first president.

1. See p. 41.
2. E/CN.14/129.
3. Resolution 52 (IV) adopted by the ECA at its 75th plenary meeting on 1 March 1962.
4. The Casablanca group—consisting of Ghana, Guinea, Mali, Morocco, and the United Arab Republic—took its name from a conference held in January 1961. The group represented African radical opinion of the time, to an extent that alarmed other African states. In an attempt to restore unity, a conference was convened in Monrovia in May, but the Casablanca group withdrew at the last minute, leaving some 20 states in the Monrovia group, labelled by the West as the 'moderate' countries.

The Committee of Nine held three meetings, in June and September 1962, and in January 1963. After the first meeting, it divided into three teams which went on separate tours for consultations with the governments of African countries. At the second meeting, the views thus obtained were put together. On this basis, the committee then divided into two teams for consultations with the governments of developed countries and with existing international development agencies. The USA, the USSR, and the international agencies in Washington and New York were all covered by one team. The other team concentrated on Western Europe.

As was to be expected, the consultations with African governments elicited some wide divergences of view. Some of these divergences were predictable. The smaller countries, for instance, wanted subscriptions related to economic capacity, but with equality of voting rights. The larger countries were in favour of a smaller differentiation of subscription levels, but with weighted voting rights. Apart from the question of subscriptions and voting rights, the consultations revealed, according to ECA sources, three major issues of principle.

First, the francophone countries tended to be sceptical about the whole proposal. Indeed, while the consultations were still going on, the governments of the francophone countries, meeting in Libreville, resolved that the proposal represented an 'unrealistic' approach. The committee attributed these doubts to French disapproval, which was subsequently confirmed to the committee by French officials in Paris.

Secondly, it became clear that most governments were interested in the proposal primarily because they assumed that it would create an additional channel for increasing the flow of financial resources from the developed countries. Several governments emphasised that the African subscriptions should be kept low, that the bank should operate primarily with special funds provided by the developed countries, and that it should provide aid on softer terms than were then generally available, without political conditions.

Finally, there was a wide variety of views concerning the participation of non-African countries, ranging all the way from admitting them as full members to excluding them even from the administration of any special funds that they provided. The alignment of countries on this issue was rather surprising. Burundi, Ghana (under President Nkrumah), Ivory Coast, Rwanda, Uganda, and some officials in Nigeria were in favour of admitting the developed countries. The UAR was the country most firmly committed to excluding them altogether. Subsequent events were to show that the UAR's attitude was conditioned by a desire to extend its own influence south of the Sahara.[1]

Given time, the difficulties inherent in these fundamental questions

1. See p. 116.

might have been clarified, but discussion was brought up short by what the committee found when it embarked on consultations with the developed countries.

The committee had a difficult task. One of its functions was to establish good will for the proposed bank as an independent African venture. Another was to take soundings on the extent to which the bank could look to the developed countries for financial and technical support. In the event, it turned out that these two functions conflicted with each other. In their discussions with officials of the developed countries, the members of the committee took as their main theme the virtue of the proposal as an exercise in 'self-help'. They explained the rationale of the view, which was already gathering strength, that membership should be open only to African countries. They emphasised that they were not seeking specific commitments at this stage. In discussions with the colonial and ex-colonial powers, they took particular care to assure their listeners that there was no intention of disturbing or intervening in existing bilateral relations. At the same time, however, they explained in some detail their ideas concerning the role of the bank and its method of operation, and asked for suggestions concerning possible forms of collaboration. According to several officials who met the members of the committee, they gave the impression of seeking precise answers to questions which they had not yet precisely formulated. According to one member of the committee, however, they deliberately refrained from formulating their proposals too precisely, in the hope that the developed countries would offer proposals of their own, and they were disappointed and surprised when this did not happen.

The team that went to Western Europe appears to have received little more than a polite hearing. The Scandinavians favoured the proposals, but they reminded the committee that their own resources were limited. It was clear that they would wait for a lead from other and larger developed countries. The West Germans declined to take up a firm position until they had some evidence of the institution's progress. The Belgians, the French, the Dutch, and the British were in varying degrees sceptical.

The team that went to the Soviet Union and the USA fared rather better. The Americans responded with some enthusiasm, and made several specific suggestions. They did indicate, however, that they felt that the non-involvement of the developed countries might present problems. The Russians were more cautious, and in discussing the question of non-African membership they insisted, as they subsequently insisted in the discussions leading up to the creation of the Asian bank, on equality of voting rights. The fear of involving the proposed institution in a dispute between the USA and the Soviet Union strengthened the committee's view that membership should be confined to Africans. Besides, there was a more immediate reason why the support of the USA was an asset of limited value. Unlike the Inter-American and Asian banks, an African bank could not be floated with American help. The discussions with African governments had already shown that French approval, or at least tolerance, was vital. Antipathy between France and the United States at that time was particularly sharp. To suggest that the proposal rested in any way on an American initiative would have been the end of it.[1]

There was only one conclusion that the committee could draw. It appears to be generally agreed that this was the point at which the committee became firmly and finally convinced that the African nations would have to set up the institution, and make it work, on their own. Once this had been done, it was hoped that the bank would quickly establish a reputation for itself which would attract the support of the developed countries. This decision left two questions open, neither of which appears to have been fully discussed at the time. First, if the bank's claim to external resources was to be derived from its operational record, how was it to acquire such a record without the resources needed to do so? Secondly, what would be the impact on the bank of thus increasing the need to operate in a manner designed to secure the developed countries' approval? These two factors together, the lack of resources and the need to use them in a manner which would not incur external disapproval, constituted a recipe for extreme parsimony.

Subsequently, after the bank had come into being, it was frequently criticised by officials in the developed countries for failing to advance positive and specific proposals. They generally attributed this failure to particular personalities in the management of the bank. It has been shown here, however, that from the very outset the debate was conducted in a manner and within a context which made the formulation of specific proposals exceptionally difficult. The question whether responsibility for this can be attributed to any particular group of persons is irrelevant. If the analysis of the African environment presented in Section 1 of this chapter is accepted, then it should be clear that the climate of debate was predetermined. Nevertheless, in the realm of historical speculation, it is worth asking what would have happened if in those early discussions someone other than the Americans had come forward with firm proposals of their own, and if some of the ex-colonial powers, more especially, had challenged the committee's assumption that their bilateral relations with their former dependencies were immutable.

1. It was evidence of US involvement, for instance, which led France to withdraw from the preparatory discussions on the Asian bank. See p. 47.

The Committee of Nine prepared a series of reports on its missions.[1] At its third session, in January 1963, it adopted a draft agreement, which was then distributed to African governments for comment.[2] The draft was then discussed at a preparatory meeting, followed by a conference of finance ministers, held in Khartoum, 16 July—4 August 1963.

The draft was mainly the work of a sub-committee of the Committee of Nine, helped by advisers from the World Bank, the Inter-American bank, the UN Secretariat, and the ECA. Three or four UN officials and consultants and one official of the Inter-American bank were conspicuous among these, not only for the extent and detail of their advice, but also for the committed effort which they put into getting the institution launched. Within this group, the proposal to establish an African bank was regarded as one of the most significant and promising proposals of recent years.[3]

The draft was closely modelled on the precedents of the World Bank group and the Inter-American bank, combining elements of all of these institutions together with some of the features of the Inter-American bank's Social Progress Trust Fund. The appropriate references to the articles of these other institutions were attached to the draft by the Committee of Nine.

At the Khartoum conference, there was relatively little discussion of the technicalities of the draft. It was a political conference, and it focused attention on political issues. The first and last of these was the question of the bank's location. It was the first substantive issue on the agenda of the preparatory meeting, and it was the last issue to be discussed by the full conference. The debate was noticeably more heated than on other issues, and went on until 4.30 in the morning. At the end of this, four serious contenders remained—Abidjan, Khartoum,

1. E/CN.14/ADB/6/Add. 1, Add. 2. and Add. 3; and E/CN.14/ADB/16/ Add. 1 and Add. 2. These reports were summarised by the Executive Secretary of the ECA in two documents. His summary of the African consultations (E/CN.14/FMAB/11) stated the divisions of opinion rather less sharply than has been done here. His summary of the external consultations (unpublished) focused attention on the reactions of the developed countries.

2. E/CN.14/FMAB/4/Add. 1. For comparison, the draft agreement is reproduced alongside the agreement in its final form, article by article, in the summary record of the Conference of Finance Ministers, Khartoum, 1963 (E/CN.14/ADB/28). The comments received from African governments also appear in the record.

3. See, for instance, Henry S. Bloch, 'Regional Development Financing', in *International Organization,* Vol. XXII, No. 1. Professor Bloch, who had written a report on regional development financing for the UN Conference on Trade and Development, was perhaps the first person to identify the dilemma of choice between the political strength of a purely regional institution and the larger resources available to an institution with non-regional membership. By the time when he wrote the article referred to here, he had come down in favour of the latter.

Nairobi, and Tunis. By the following day, it had been agreed that a final decision should be left to the first meeting of the Board of Governors.

A set of technical criteria had been laid down by the Committee of Nine and the preparatory meeting. But the real problem was that there were three groups of countries, francophone, anglophone, and Arabic-speaking, and only two prizes to share between them—the bank's headquarters and the office of president. At one point a straight swap was proposed. The anglophone countries could have Mr. Beheiry, of the Sudan, as president, if the francophone countries could have Abidjan as the headquarters. The proposition was immediately rejected and withdrawn as wholly improper.[1] Subsequently, the Board of Governors chose Abidjan as the headquarters and appointed Mr. Beheiry as president.

Two broader issues which occupied much of the conference's attention were those of membership and the scope of the bank's operations. On membership, the conference more or less unanimously supported the view that had developed in the Committee of Nine, in favour of excluding non-African countries. The question of members' voting rights proved more contentious, but the view of the weightier countries, which was naturally in favour of weighted voting, prevailed. It was argued, with some justification, that there were other provisions in the draft agreement which would protect the interests of the smaller members: and indeed, this was subsequently borne out by the way in which the bank's operations evolved.[2]

On the scope of the bank's operations, there was a strong political and economic consensus in favour of an emphasis on multinational projects. It was even proposed, in an amendment submitted by Mauritania,[3] that the bank should provide finance 'exclusively' for multinational projects, except in the island states. Two major objections to this amendment were raised. The first was the difficulty of defining 'multinational project'. The Mauritanian delegate saw the bank as 'a factor for economic co-ordination in Africa, promoting the establishment of industrial complexes and of an infrastructure for trade in both raw material supplies and finished products between African countries': but the broad and rather enterprising definition implicit in this statement proved extraordinarily difficult to develop with any precision. Short of restricting the class of multinational projects to those which physically straddled a frontier, the dividing line between

1. Summary Record (E/CN.14/ADB/28), p. 84. One of the points in favour of a Sudanese candidature was that the Sudan would also be counted as part of the Arabic-speaking group.
2. See pp. 127 ff.
3. Summary Record, pp. 58, 65-66, 98.

'national' and 'multinational' was so indeterminate that to fix it in the bank's articles would have given rise to endless questions of interpretation. A rather weaker objection came from those who were unwilling to see *any* such restriction on the nature of the bank's operations, either because they had not yet clearly made up their minds what the role of the bank should be or because they had their own private preferences which they wanted to keep within the range of the bank's finance. From the tone of the discussion, it appears to have crossed the minds of several delegates that they might one day find themselves set upon some particular scheme for which they would be seeking the bank's support, and which they did not want ruled out on legal grounds. The result was that the Mauritanian amendment was replaced by an amendment which merely strengthened the emphasis on multinational projects, within a very broad definition of that term. This later proved sufficient to impart a distinctive tone to the bank's approach to the problem, but it carried the disadvantage of forcing the bank to look for multinational projects without any clear guideline concerning what kind of multinationalism it was trying to promote.

There were, of course, numerous more technical points which had to be covered at the Khartoum conference. In general, however, these were resolved either in the preparatory meeting or in informal discussions, in which the participants drew heavily on the comments of their UN advisers and of other international agencies. The full conference of finance ministers was no empty formality, but the issues with which it was substantially concerned were political.

In general terms, these issues can be reduced to three central questions: how to devise an adequate institutional base for African co-operation, how to allay the smaller countries' fear that co-operation would lead to domination by those few African countries which were already relatively advanced; and how to devise, in one's approach to Africa's development problems, a style appropriate to the peculiar conditions of African dependence and African balkanisation.[1]

It is significant that these questions arose at the outset. They are questions which have permeated all attempts to promote African unity, whether that unity is seen primarily as a political or as an economic aim. They constitute the confluence of the politics and the economics of the African continent. In the immediate post-independence period, most of the leading statesmen of Africa concentrated on one of these issues or another, and the limits of their achievements were set by

1. It might be argued that the crucial divisions of Africa are not the international divisions of 'balkanisation', but internal divisions, Congo (Kinshasa), Nigeria, Sudan, etc. For an international institution, however, the entrenchment of international divisions is the more acute problem, because it perpetuates certain aspects of the *status quo*. See S. Touval, 'Africa's Frontiers: Reactions to a Colonial Legacy', in *International Affairs*, Vol. 42, No. 44, October 1966.

their failure to address themselves to the others. It was not to be expected that the African bank alone would succeed in resolving issues of such profound and extensive significance, but at least they were squarely faced from the start. Once the decision to exclude the developed countries had been taken, the countries of Africa were confronted with the realities of the colonial inheritance.

By the same token, however, they were deprived of the external resources which were commonly regarded as the necessary instrument by which the problems inherent in that inheritance might be resolved. The developed countries, whose representatives attended the conference as observers,[1] appeared not to have firm proposals, or even a formulated attitude from which such proposals might be derived. This can be explained in terms of the unfamiliarity of the situation in which they found themselves, since most, if not all, of the existing frameworks for concrete aid negotiations were ones in which the aid-givers were dominant. What is less plausible is the explanation offered by the developed countries themselves, to the effect that they could not formulate an attitude until the African governments had provided them with proposals for consideration. Even in 1963, the principle that the aid-givers did not act on their own initiative, but only in response to requests, had long been recognised as the convenient fiction that it was. Besides, the proposed African bank fitted an institutional pattern which was central to the prescriptions offered by the Western developed countries, and a precedent for the proper response to it existed in the special funds of the Inter-American bank. In the event, some observers, notably the French, offered technical assistance. The British representative did not even have that much to offer. A more concrete offer, which nevertheless constituted a rather restrictive precedent, came from the USA, which declared its willingness to consider loans to the bank for specific projects.

There was a contrast, also, in the attitudes of the proposed bank's two principal sister institutions—the World Bank and the Inter-American bank. Mr. George Woods, the president of the World Bank, delivered a message through the then director of his Africa department (Mr. Abdul El-Emary, who had previously been released by the World Bank to act as one of the leading consultants in the preparatory discussions), in which he advised the founders of the African bank to exercise a degree of caution appropriate to the smallness of their resources, to avoid duplicating the work of other institutions, and above all to treat the bank 'as a financial institution and not as a political instrument'.[2] He offered to take in a few members of the African

1. The non-African countries thus represented were Belgium, Czechoslovakia, Federal Republic of Germany, France, India, Italy, Japan, Netherlands, Pakistan, Sweden, Switzerland, UK, USA, USSR, Yugoslavia.
2. Summary Record, pp. 240-3.

bank's staff for training, to lend some of his own 'more experienced' staff, to advise the African bank on how to conduct feasibility studies, and to join with the African bank in the financing of 'any well-designed project . . . which meets the tests of our appraisal and the criteria which the World Bank . . . must necessarily apply'.

Mr. Felipe Herrera, the president of the Inter-American bank, came in person. This was in keeping with his general habit of travelling widely in the interest of good relations. He expressed pleasure at the extent to which the Inter-American bank had already been able to help in the preparatory work, and he offered some parallels between African and Latin American conditions, but he added, explicitly refraining from offers of advice, 'I do not want to tell you how you should run your bank.' The main theme of his speech was the political significance of the creation of this sister institution as one more example of how Africa and Latin America might co-operate in pursuit of their common interests in the UN Conference on Trade and Development, and elsewhere.[1]

The Khartoum conference, then, was an affirmation of the main conclusion reached by the Committee of Nine, that the African countries would have to establish the African bank on their own. And it was more than that. It was the occasion for a declaration that regional banks are essentially political instruments for resistance to, or at least amelioration of, the developed countries' domination of the framework of international economic relations.[2]

Article 65 of the agreement adopted by the conference stated that the agreement would enter into force upon the deposit of instruments of ratification or acceptance by twelve signatory governments whose subscriptions amounted to not less than 65% of the authorised capital stock. In accordance with this provision, the bank formally came into existence on 10 September 1964, when the accession of Algeria brought the aggregate subscriptions to the required level. The countries which had deposited instruments of ratification by then, in chronological order (with percentages of total capital stock in brackets), were : Sudan (4·8), Tanganyika (2·5), Uganda (2·62), Kenya (2·8), Sierra Leone (1·0), Nigeria (11·4), Ivory Coast (2·8), Mali (1·1), Cameroun (1·9), Guinea (1·2), Morocco (7·1), Congo (Kinshasa) (6·2), Liberia (1·2), Ghana (6·1), Togo (0·5), Ethiopia (4·9), Niger (0·7), Dahomey (0·7), Mauritania (0·5), Algeria (11·6). Countries which had signed the agreement, but had not yet joined the bank, some of which hardly intended to do so, were : Burundi, Central African Republic, Congo (Brazzaville), Libya, Rwanda, Senegal, Somalia, Tunisia, UAR, Upper

1. Summary Record, pp. 239-40.
2. This is the crucial functional difference between regional banks and the World Bank. See Chapter 1.

Volta. Countries which had been represented at Khartoum, but had not even signed the agreement, were: Chad, Gabon (which had insisted on equal voting rights for all members), Madagascar.

3 Structure

The articles of the African bank constitute a broadly permissive document, which left it free to evolve in accordance with perceived priorities and within the limits of whatever constraints should materialise. At the time of writing (in 1969-70) enough evidence was available for an assessment of how these priorities and constraints would develop in practice, and this has been taken into account in choosing one aspect of the articles rather than another for emphasis. It is argued later[1] that the constraints rather than the priorities proved dominant.

Details given for membership, etc., refer to the position reached by 30 June 1968, except where otherwise stated.

Membership, subscriptions, and voting rights

Membership of the African bank is confined to independent states of the African continent and adjacent islands.[2] The articles do not refer explicitly to South Africa, but it was resolved at Khartoum in 1963 that South Africa should not be eligible 'until its Government has terminated its apartheid policies'.

The subscriptions of member states were fixed at Khartoum in accordance with a formula based on population, gross national product, foreign trade, and government revenue. In order to avoid extreme disparities, minimum and maximum subscriptions were set at the equivalents, respectively, of \$1m and \$30m.

The bank's authorised capital stock is 250m units of account, a unit of account being equivalent to \$1.[3] In relation to population, the initial capital of the African bank was roughly equivalent to that of the Asian bank. Since 68% of the capital of the Asian bank was subscribed by developed countries, the intended contributions of the African countries, in relation to population, were roughly three times

1. See Section 4 of this chapter.
2. Article 3.
3. Article 5 expresses the authorised capital stock in terms of units of account, the value of one unit being 0·88867088 gramme of fine gold. This was the equivalent of one US dollar, and for the sake of clarity subscriptions are given here in terms of their dollar equivalents.

greater than those of the developing countries of Asia.[1] The initial authorised capital of the Inter-American bank, serving a population roughly the same size as that of Africa, was 3·2 times greater, 41% of it being provided by the USA.[2]

The capital stock is divided into 25,000 shares, with a par value of $10,000 each. Half of these shares are subject to call when required by the bank to meet its obligations. The other half of the capital stock is in the form of paid-up shares, which are payable *wholly* in gold or convertible currency.[3] In this respect, the African bank is exceptional. In the IBRD,[4] in the Inter-American bank, and in the Asian bank, part of each subscription is payable in the currency of the member country, which effectively reduces the burden on the less developed members of these institutions.

The paid-up portion of the subscriptions of the original members was payable in six instalments, spread over four and a half years. Two instalments, amounting to 40% of each member's subscription, were due within the first six months. In the case of new members, the Board of Governors determines the dates of payment.

Voting rights[5] are weighted in such a way as to give the smaller members more than a proportionate share of the total voting power. Each member has 625 votes plus one vote for each share that he holds. Thus, a member with the minimum subscription of $1m will have 725 votes: a member with the maximum subscription of $30m will have 3,625 votes, or five times the voting power of the smallest member, although his subscription is 30 times greater. Decisions on most subjects, both in the Board of Governors and in the Board of Directors, are decided by a simple majority of the voting power of those present.

By 30 June 1968 the original 20 members of the bank had grown to 31. Independent African countries which had not yet joined, apart from very newly independent countries such as Botswana and Lesotho, were the Central African Republic, Gabon,[6] Gambia, Libya, and Madagascar. The combined subscriptions of the 31 members amounted to $217,800,000. The subscriptions and voting power of individual members are shown in Table 4.

1. See pp. 54 ff.
2. The Inter-American bank, of course, also had access to other resources. See Chapter 4.
3. Article 7.
4. The whole of a subscription to the International Finance Corporation, however, is payable in convertible currency, while in subscriptions to the third member of the World Bank group, the International Development Association, the provision in favour of developing countries (Part II members) is explicit.
5. Article 35.
6. Gabon was then negotiating for membership.

Table 4 Shares and voting power of members of the African Development Bank, 30 June 1968

Member country	Shares $m	Percentages of total shares	Percentages of total voting power
Algeria	24·5	11·5	7·5
Burundi*	1·2	0·6	1·8
Cameroun	4·0	1·8	2·5
Chad*	1·6	0·7	1·9
Congo (Brazzaville)*	1·5	0·7	1·9
Congo (Kinshasa)	13·0	6·0	4·7
Dahomey	1·4	0·6	1·9
Ethiopia	10·3	4·7	4·0
Ghana	12 8	5·9	4·6
Guinea	2·5	1·1	2·1
Ivory Coast	6·0	2·8	3·0
Kenya	6·0	2·8	3·0
Liberia	2·6	1·2	2·2
Malawi*	2·0	0·9	2·0
Mali	2·3	1·1	2·1
Mauritania	1·1	0·5	1·8
Morocco	15·1	6·9	5·2
Niger	1·6	0·7	1·9
Nigeria	24·1	11·1	7·4
Rwanda*	1·2	0·6	1·8
Senegal	5·5	2·5	2·9
Sierra Leone	2·1	1·0	2·0
Somalia	2·2	1·0	2·1
Sudan	10·1	4·6	4·0
Tanzania	6·3	2·9	3·1
Togo	1·0	0·5	1·8
Tunisia	6·9	3·2	3·2
Uganda	4·6	2·1	2·6
UAR	30·0	13·8	8·8
Upper Volta	1·3	0·6	1·8
Zambia*	13·0	6·0	4·7
Total	217·8	100·0	100·0

Note: *These countries joined the bank in the period from the first meeting of the Board of Governors, in November 1964, to 30 June 1968. The others, therefore, were in effect founder members.

Source: African Development Bank, 1967 Report, with additional figures.

Aims and functions

The stated purpose of the African bank is 'to contribute to the economic development and social progress of its members—individually and jointly'.[1]

In choosing this wording, the drafting committee appears to have been following the example of the Inter-American bank. The historical circumstances in which the Inter-American bank was established gave it from the outset a disposition to look at development in social as well as economic terms.[2] In the case of the African bank, this mode of perception was written into Article 1. In the different historical circumstances of Africa, however, the emphasis on social needs has been less forcefully maintained. Similarly, in the subsequent establishment of the Asian bank, this broad conception of the development process, which is implicit in the use of the word 'social', gave way once again to a stricter economic view.[3]

The phrase 'individually and jointly' has parallels in the articles of the Inter-American and Asian banks, which distinguishes them, for

1. Article 1.
2. See pp. 155 ff.
3. See p. 58.

instance, from the World Bank. In the African case, the emphasis on a 'joint' regional approach is especially strong, and is reflected also in the statement of the bank's functions.

These functions are stated[1] in terms which give 'special priority' to:

'i. projects or programmes which by their nature or scope concern several members; and

ii. projects or programmes designed to make the economies of its members increasingly complementary and to bring about an orderly expansion of their foreign trade;'

Again, the explicit attempt to broaden the scope of the bank's operations, by empowering it to go beyond the strict confines of project-financing, was an innovation; but in practice the bank has kept fairly strictly to specific projects, and has not devoted much attention to the possibilities of 'global' loans, and similar programmatic devices.

The bank's functions also include the mobilisation of additional internal and external resources, the promotion of public and private investment, and the provision of technical assistance, especially in the preparation of projects.

Resources

The bank's ordinary capital resources are defined[2] as the subscribed capital stock, funds raised by borrowing, funds received in repayment of past loans, income derived from the bank's loans and guarantees, and any other funds received which do not constitute 'special resources'. The bank is also empowered to receive and administer special funds.[3] These funds, however, have to be kept 'entirely separate'[4] from the bank's ordinary resources, which would appear to preclude certain normally accepted uses, such as a mixture of ordinary resources and special funds as a means of making the terms of lending more flexible. For purchases in member countries, the bank may ask the member to lend its currency, and this request is to be met, 'unless the member concerned invokes economic and financial difficulties'.[5]

An early assumption, in line with the bank's commitment to 'additionality', was that the bank would build on the foundation provided by its paid-in capital, operating mainly with funds borrowed on the capital markets of the developed countries and with special funds provided by the developed countries as part of their aid programmes. The first of these assumptions subsequently had to be modified in the light of the rising cost and increased difficulty of borrowing. There was some doubt, also, concerning the credibility of the bank's exclusively

1. Article 2.
2. Article 9.
3. Article 8.
4. Article 11.
5. Article 24

African backing as a basis for bond issues. The management of the bank, therefore, devoted much attention in its first few years to the possibility of raising special funds. These efforts, too, were hampered by the deteriorating international financial climate, and no such funds had been secured by the end of 1968.[1]

For the first few years of its life, therefore, the bank relied on the paid-up portion of its subscribed capital. The total capital subscribed by members who had joined by the end of June 1968 was $217,800,000. One half of this, or $108,900,000, was in the form of paid-up shares. The amount already called, as instalments fell due, was $88,235,000. Most members, however, were persistently behindhand with their payments, while a few, notably the UAR, appeared to have deliberately stopped subscribing.[2] As a result, the amount actually paid in was only $52,596,724, or 60% of the amount due. Unless arrears are made good, therefore, the total effective resources of the African bank are unlikely to exceed $70m-80m, or roughly 4% of one year's net flow of multilateral and bilateral official aid to Africa from all sources. As this relatively small sum becomes committed, the future of the institution will rest on the willingness of its active members to increase their subscriptions, or the willingness of the developed countries to provide it with special resources, or both.

Organisation and management

The highest authority of the bank is the Board of Governors, on which each member is represented by a governor and an alternate governor.[3] In practice, as with the World Bank and other international financial institutions, a governor is normally the finance minister of his country or the occupant of some similar policy-making position.

The Board of Governors usually meets once a year. The general operations of the bank are under the control of the Board of Directors.[4] There are nine directors,[5] elected by the Board of Governors under a procedure which contains the usual safeguards to ensure an even distribution of voting power.[6] To be elected, a director has to receive 10% of the total votes, which means that no director can be elected by a single country. Above an upper limit of 12% of the total votes, the support that a candidate receives is deemed superfluous. The governors who have cast these surplus votes, together with governors who have voted for a candidate who failed to get 10% of the total votes, vote in

1. See Section 4 of this chapter.
2. The problem of arrears in the payment of subscriptions is discussed more fully in Section 4 of this chapter. It may be noted here that arrears in paid-up subscriptions weaken still further the credibility of the callable capital as security for the bank's borrowings.
3. Articles 29 and 30.
4. Article 32.
5. Article 33.
6. Annex B to the Articles of Agreement.

successive ballots until nine directors are elected. The groupings produced by this system tended initially to conform to the existing pattern of political relations. Fairly soon, however, the pattern of linkages became more fluid. At the end of 1967, the nine directors represented the following groups of countries: (1) Ghana, Upper Volta, Tunisia; (2) UAR, Togo; (3) Nigeria, Sudan; (4) Algeria, Mauritania, Somalia; (5) Morocco, Mali, Senegal; (6) Congo (Kinshasa), Malawi, Zambia; (7) Kenya, Tanzania, Uganda, Rwanda; (8) Sierra Leone, Liberia; (9) Cameroun, Congo (Brazzaville), Ivory Coast, Dahomey, Niger. With one exception, the voting power of directors was in the range 3,975–4,675.

It was originally intended that the directors would reside permanently at the bank's headquarters, as is the case with other international financial institutions. For several reasons, however, including the need to reduce costs, the Board of Directors decided that the date for taking up residence should be deferred. It had been found that the cost of residing in Abidjan, where the headquarters were located, was extremely high.

The Board of Directors elects the president, who is the bank's executive head.[1] The president is elected for a five-year term of office, which may be renewed. The vice-presidents are elected by the directors on the basis of the president's recommendations. In the first few years of the bank's life, the president's influence on its character was likely to be even more marked than it usually is in such institutions, because of the absence of the directors.

In staffing the bank, the president is required to try to recruit Africans, especially for the senior posts.[2] In spite of the relative shortage of experienced financial administrators in Africa, and the fear that the bank might draw away key people from national administrations, this provision has been interpreted fairly strictly. As a result, recruitment in the early years was slow. By the end of 1967, the bank had recruited only 31 professional staff, of whom 24 were from member countries.[3] Apart from a pre-investment unit staffed and partially financed by the UN Development Programme, it appeared still to lack any clear departmental structure. (For instance, it had no information department.) Operational responsibilities were roughly allocated among the vice-presidents, but essentially the bank was still operating as a single, small team built up around the personality of the president.

Operations

The articles of the African bank give it a high degree of operational freedom. It may provide finance 'for any member, political sub-division

1. Article 36.
2. Article 37.
3. 1967 Annual Report. See, also, pp. 120 ff.

or any agency thereof or for any institution or undertaking in the territory of any member as well as for international or regional agencies or institutions concerned with the development of Africa'. It may make or participate in direct loans, invest in equity, or guarantee loans made by others.[1] Although it may not finance a project if the government of the country objects,[2] it is not required to seek a government guarantee. It is thus free to operate nationally or internationally, in the public or private sector, with loan or equity finance.

The articles impose certain limitations, however, which give rise to questions of interpretation. In spite of the assertion in Article 2, already referred to, that the bank may invest in projects or programmes, the article on operational principles[3] confines the bank to 'specific projects, or groups of projects'. A partial exception is allowed in the case of 'global loans to . . . African national development banks or other suitable institutions'. In all its operations, the bank is required to apply 'sound banking principles'.[4]

The bank's resources are to be used mainly for the foreign exchange costs of projects, but it may also finance local expenditure if it can do so without selling gold or convertible currency, or if the project is likely to impose an indirect burden on the recipient's balance of payments.[5] It is expressly forbidden to impose conditions on procurement by specifying countries in which its ordinary resources may or may not be spent.[6] (Limitations on the use of special funds, of course, are open to negotiation with the country or countries providing them.)

In fixing the terms of lending, it is required to take account *both* of the nature of the project[7] *and* of the terms on which the funds used were obtained by the bank.[8] The effect of these two provisions in conjunction is to establish a link between the type of finance used and the type of project for which it is available.

The total amount outstanding in respect of ordinary operations may not exceed the total unimpaired subscribed capital, reserves, and surplus; and a similar limitation applies to the use of special funds. The bank's aggregate investments in equity may not exceed 10% of the paid-up capital stock together with reserves and surplus.[9]

It will be seen that there is a certain contrast between the broad and radical principles of the articles setting out the bank's functions and the rather more restrictive and conservative approach in the articles

1. Article 14.
2. Article 17 (1b).
3. Article 17.
4. Article 17 (1j).
5. Article 16.
6. Article 17 (1d).
7. Article 17 (1f).
8. Article 18 (3a).
9. Article 15 (4a).

governing its operations. When the bank came to publish a statement of its loan policy,[1] it was clear that the more conservative approach was dominant.

The tone was set in the opening paragraph of the Introduction to this statement, as follows: 'The policies and procedures outlined in these pages conform in large measure to those in force in other regional and international lending agencies. This has not been the result of unquestioning adherence to established norms, but rather a reflection of the sincere belief of the management that these policies are sound in principle and have stood the test of time and experience.'

The statement restricted the bank's operations to 'sound specific projects',[2] without exception. The application of 'sound banking criteria' was emphasised, and these were taken to exclude, so far as ordinary operations were concerned, 'special projects such as housing construction, rural water supply and hospitals'.[3] An upper limit on loans was set at $8m for multinational projects and $3m for national projects, with a lower limit of $100,000, except for loans for preinvestment studies.[4] For projects 'affording early and substantial income', the bank would charge interest approximately at the international market rate. For agriculture, infrastructure projects, etc., provision was made for a lower rate of interest to be charged.[5] Repayment would normally be over periods ranging from five to 20 years.[6] Throughout the document, it was emphasised that the freedoms which the bank possessed, some of which have been mentioned here, would be used only in exceptional circumstances, and with the greatest caution.

At the same time, the statement did identify certain features of policy which in the bank's view represented 'innovations appropriate to African conditions'.[7] These included the emphasis on multinational projects, participation in equity capital, the power to establish special funds, the dual rate of interest, the stated willingness to assist borrowers in raising additional finance elsewhere, and 'a reasonable preference for African goods and services'.[8]

It should be clear from what has already been said that none of these features was in fact a significant innovation. Equally, from the fact that they were already, with minor variations, familiar features of other international institutions, it is reasonable to argue that there was nothing particularly African in their appropriateness. It cannot

1. 'Loans and Investments', African Development Bank, August 1967.
2. Ibid., para. 1.
3. Ibid., para. 2.
4. Ibid., para. 8.
5. Ibid., para. 11.
6. Ibid., para. 13.
7. Ibid., Introduction.
8. Ibid., paras. 1, 3, 9, 11, 14 and 19.

even be said that the African bank stated them or proposed to apply them with any unusual degree of boldness. The question arises, therefore, how it came about that the bank in practice turned out to differ so markedly from the institution conceived in Tunis in 1960, a conception which had found its formal expression in the first three articles of the agreement by which the bank was established. The answer to that question requires an account of the bank's evolution. In such an account, it will be seen that the bank's evolution was determined neither by its internal structure nor by the intentions of its founders, but by the African environment. What is specifically African about it, and creative, is its style, the processes by which its attitudes are formulated and expressed; and what is specifically problematical about its future is only one aspect of the wider problems that African countries face in the world at large.

4 Evolution

The Board of Governors held its first meeting, in Lagos, in November 1964. It elected the Board of Directors, which met immediately afterwards. The most important decision of the Board of Governors, taken in the midst of some fierce lobbying, was to locate the bank's headquarters in Abidjan, capital of the Ivory Coast. The most important decision of the Board of Directors was to appoint Mr. Mamoun Beheiry, Sudan's Minister of Finance and Economics and a former member of the Committee of Nine, as president.

It will be recalled that these two decisions in conjunction were originally proposed at Khartoum as a compromise between the demands of English-speaking and French-speaking Africans. In the event, the need to effect such a compromise was reinforced by other political factors, which narrowed the choice still further. Conspicuous among these was the attitude of the French Government, which had already shown that it could more or less dictate the positions of some of the weaker French-speaking states. While the need to ensure satisfaction for the numerous English-speaking members of the bank was recognised, it was thought prudent to avoid an appointment, or a location, which would give the French grounds for claiming that the bank was an agency of the Commonwealth, which left very few English-speaking countries in the running. On the French-speaking side, President Houphouet-Boigny of the Ivory Coast was inclined to oppose the scepticism, not only of Paris, but also of his own French finance minister, who was one of the bank's strongest opponents. As one of the two leading French-speaking statesmen in Africa south of the Sahara, President Houphouet-Boigny was in a position to lend the bank powerful support, if he chose to do so. The choice of Abidjan was intended to influence this choice.[1]

The specific choice of Mr. Beheiry was the outcome of more positive factors. It was widely recognised that the choice of president was crucial. Mr. Beheiry, in addition to having been closely associated with the long preparatory work for the bank's establishment, was a man of great experience, and possessed of a certain presence which was likely to enhance the bank's authority. As a former governor of the Central Bank of Sudan, he also had the advantage, especially from the point of view of those who had the foresight to appreciate how difficult it was going to be to raise special funds, of being widely known and respected among officials in the developed countries. If there was any fear that the African bank would behave with the 'irresponsibility' often attributed, for instance, to the Organisation for African Unity, the appointment of Mr. Beheiry was likely to allay it.

The long-term significance of the choice of Abidjan is difficult to assess without an element of subjectivity. It is perhaps prudent to admit that the assessment given here is derived in part from a strong personal antipathy to those African cities, such as Abidjan, which seem to provide little more than an expensive refuge in which the political and commercial élite, in the company of a conspicuous expatriate community, can isolate itself from the surrounding reality. Abidjan is the archetype. It is perverse to assume, as some non-African observers have done, that such antipathy is a non-African phenomenon, and that Africans themselves take such phenomena as the visible signs of nationhood. There is much evidence to suggest that some of the African bank's recruiting difficulties are attributable to an unwillingness to reside in Abidjan. The same is true of the directors' deferment of a decision to take up residence, which has already been mentioned. In the bank's formative years, there were inevitably many difficulties to be overcome. The resilience of the management's response to those difficulties was impaired by the debilitating effect of its surroundings.

The Committee of Nine had laid down criteria for the selection of the bank's headquarters. Most of these, such as accessibility from other African capitals, had seemed fairly obvious. The trouble was that no African capital fitted them. Unlike the Asian bank, for which the choice lay between regional centres of various kinds, including Singapore with its advantages as an entrepôt and Tokyo with its financial advantages, the African bank was bound to find itself in a capital more closely linked with some European capital, probably a former metropolitan power, than with other African countries.[2] In

1. See, for instance, Conference of Finance Ministers, Summary Record, p. 82.
2. For ease of communications, journalists and others who at that time had to travel widely both in West and in East Africa frequently made their headquarters in Rome.

addition, national rivalries had resulted in the establishment of a principle that African international agencies, instead of being concentrated in one place such as Addis Ababa, should be deliberately dispersed as widely as possible.

The bank's advance party moved into temporary offices in the National Assembly in March 1965. Five months later, they were given rather less temporary, but still somewhat inconvenient, offices in a new block in the centre of Abidjan. It was not until the following year that a headquarters agreement was concluded, and at the end of 1968 the bank was still housed in its interim premises, with little prospect of an early move.

The bank opened its doors for business on 1 July 1966. It signed its first loan agreement in August 1967. (This loan, amounting to $2,300,000, was for up-grading two roads on the Kenya-Uganda and Kenya-Tanzania borders.) By 30 June 1968, when the bank had been installed for just over three years and in business for two, the Board of Directors had approved the financing of four projects, one of which was a technical and economic study. The total finance to be provided by the bank for these projects, details of which are shown in Table 5, was $5,400,000. In addition, the bank had initiated, undertaken, sponsored, or agreed to a number of studies. These included the following: a preliminary study of the supply of power from the Volta River dam to Togo and Dahomey, a project for which Canada subsequently offered the finance; a preliminary survey of possible forms of economic co-operation between Dahomey, Ivory Coast, Niger, Togo, Upper Volta, and Ghana; a general survey, in co-operation with the UN, of tourism in West Africa; a review, by a panel of African experts, of African insurance and re-insurance; a survey, in co-operation with FAO, of West African shrimp resources; two surveys, undertaken by agencies of the UN, of transport studies and of international telecommunications, and a study of opportunities for private investment in African countries.

By comparison with its sister institutions, the African bank's rate of progress appeared excessively slow. The Inter-American bank entered into 73 loan agreements in its first year of operations. The Asian bank's record was not nearly so startling as that, but it opened its doors for business within a month of its inaugural meeting, and after two years it had committed $43m under seven loan agreements and 11 technical assistance agreements.

Such comparisons are relevant, primarily because they entered into the appraisals of the developed countries. In the preparatory discussions, as has already been pointed out,[1] the developed countries adopted a 'wait-and-see' attitude. Subsequently, they continued to

1. See p. 95.

Table 5 Projects approved for financing by the African Development Bank, 1 July 1966—30 June 1969

Country	Amount $m	Repayment period (inc. grace period)	Date of signature	Project	Total cost of project $m	Additional source of external finance	Remarks
Kenya	2·3	23 years	8.8.67	Up-grading of road to Tanzania and Uganda borders	7·0	US AID	A project with a 'multinational' justification
Sierra Leone	0·12	equity	24.7.68[1]	National Development Bank of Sierra Leone	0·6	—	In addition to equity finance, the NDB was to receive loans from the government and from national institutions
Tunisia	2·75	20 years	2.8.68[2]	Irrigation schemes in the Medjerda Valley	5·5	—	Settlement for 750 families
Uganda	0·23	6½ years	5.9.68[3]	Study of urban water supply and sewerage	0·31	—	Intended to provide a plan for a major urban programme
	0·07	15 years	4.69[4]	,, ,, ,,	0·09	—	
Liberia	1·35	19 years	7.69[4]	Gas turbine plant	n.a.	—	—
Kenya, Tanzania Uganda	3·0	equity and 15 years	7.69[4]	East African Development Bank	—	—	$1m in equity, and $2m line of credit; a 'multinational' project

Notes: 1. Approved in April 1967.
2. Approved in June 1968.
3. Approved in March 1968.
4. Date of approval.

Source: African Development Bank press releases.

argue that they could not give the African bank more than tentative support so long as it appeared to be still feeling its way.

It should be added, however, that comparisons in these terms are thoroughly misleading. First, they fail to take account of the differences in the resources of the three institutions. The African bank cannot be compared with the relatively luxuriously endowed Inter-American bank. The case of the Asian bank is perhaps more relevant. It started with nearly five times the resources of the African bank, admittedly for a much more populous area. More significantly, the participation of the developed countries gave it greater *financial* security. If these factors are taken into account, the rates of progress of the African and Asian banks were roughly comparable. That they were not seen to be so is partly attributable to the African bank's public relations, in which the emphasis was consistently on caution and the need for preparatory work. The African bank undoubtedly suffered in those early years from the lack of a professional information department.

Secondly, such comparisons ignore variations in the extent to which preparatory work had been done in the member countries of the three institutions. The Inter-American bank is alleged by officials in other institutions to have had a large number of projects fed to it in the early years, mainly by US aid agencies. While this was not the case with the Asian bank, it is certainly true that project identification was less of a problem in Asia than in Africa, especially for an institution that was content, as the Asian bank was, to ignore some of the subtler criteria of project selection.[1]

Finally, such comparisons do not take account of the particular features of the African environment with which the African bank had to contend. The most immediately frustrating of these, and one which the developed countries could have helped to resolve, was the pattern of the flow of resources. An excessive proportion of the bank's attention had to be devoted to the mobilisation of resources, both internally, through its own subscribed capital, and externally, through the establishment of special funds. But there were other features of the African environment, also, which loomed large in the bank's evolution, of which the following will be discussed here :

(a) a shortage of skilled personnel, especially of financial and economic administrators, and a general reliance on technical assistance, which was reflected in the staffing of the bank;

(b) the difficulty of identifying a special role for a new institution, in terms of categories of projects, which was exacerbated by the fact that in the post-colonial era several international agencies were anxious to expand their activities in Africa, creating a climate of competition rather than co-operation;

1. See pp. 72 ff.

(c) the existence of numerous small and weak countries, some of which were excessively dependent on a single source of bilateral aid.

Subscriptions

It was argued in Section 3[1] that the resources of the African bank in its early years were effectively limited to the paid-up portion of its subscribed capital. This relatively small amount (just over $100m) was reduced still further by persistent delays in the payments of nearly all members. Of the founder members, the only ones that were not in arrears by the end of June 1968 were Kenya, Rwanda, Sierra Leone, Tanzania, and Uganda. Performance in respect of payments is shown in Table 6.

Table 6 Paid-up subscriptions to the African Development Bank, up to 30 June 1968
$m[1]

Country	Amount due to 31.12.65	Amount paid to 31.12.65	Amount due to 30.6.68	Amount paid to 30.6.68	Total arrears
Algeria	4·90	4·90	10·41	6·74	3·68
Burundi	—	—	0·03	0·03	—
Cameroun[3]	0·80	0·10	1·70	0·10	1·60
Chad	—	—	0·04	0·04	—
Congo (Brazza.)	0·30	0·30	0·64	0·53	0·11
Congo (Kinsha.)[2]	2·60	0·33	5·53	2·60	2·93
Dahomey[3]	0·28	0·04	0·60	0·04	0·56
Ethiopia[3]	2·06	2·06	4·38	2·06	2·32
Ghana	2·56	2·56	5·44	4·48	0·96
Guinea[3]	0·50	0·50	1·06	0·50	0·56
Ivory Coast	1·20	1·20	2·55	2·10	0·45
Kenya	1·20	1·20	2·55	2·55	—
Liberia	0·52	0·17	1·11	0·72	0·39
Malawi	—	—	0·15	0·15	—
Mali	0·46	0·46	0·98	0·87	0·11
Mauritania	0·22	0·22	0·47	0·32	0·14
Morocco[3]	3·02	3·03	6·42	3·05	3·37
Niger	0·32	0·32	0·68	0·44	0·24
Nigeria	4·82	4·80	10·24	6·87	3·37
Rwanda	0·24	0·24	0·51	0·51	—
Senegal[3]	1·10	1·09	2·34	1·09	1·24
Sierra Leone	0·42	0·42	0·89	0·89	—
Somalia	0·44	0·44	0·94	0·77	0·17
Sudan	2·02	2·02	4·29	3·54	0·76
Tanzania	1·26	1·26	2·68	2·68	—
Togo	0·20	0·20	0·43	0·35	0·08
Tunisia	1·38	1·38	2·93	2·42	0·52
Uganda	0·92	0·92	1·96	1·96	—
UAR[3]	6·00	0·75	12·75	0·75	12·00
Upper Volta	0·26	0·26	0·55	0·46	0·10
Zambia	—	—	2·93	2·93	—
Total	40·00	31·16	88·15	52·51	35·64

Notes: 1. Discrepancies are due to rounding.
2. Congo (Kinshasa) had negotiated a special agreement for delayed payments.
3. Countries noted as having stopped paying after the second call, except for a very small payment by Morocco.

Source: African Development Bank, annual and interim reports.

Some of the arrears could be explained in terms of the difficulty, for many African countries, of finding the necessary foreign exchange, or simply in terms of administrative delays. In other cases, however, members appeared to have taken a deliberate decision to withhold

1. See p. 105.

their subscriptions. As will be seen from Table 6, the following countries stopped paying after the second call, due in most cases on 10 March 1965: Cameroun, Dahomey, Ethiopia, Guinea, Morocco, Senegal. Five of these six countries were French-speaking, a circumstance which exacerbated relations within the bank.

The most persistent offender of all, and the one member which had clearly and unequivocally withdrawn its support, was the UAR, which had made no payment after the first token instalment. At an early stage, the UAR had implicitly suggested the introduction of a quota system into the staffing of the bank, related to subscriptions. More specifically, it argued that its own position as a large subscriber should be taken into account in decisions on staffing. It was already in arrears at the time, and according to one senior official of the bank a hint was dropped to the effect that the arrears might be made up if the dispute over staffing could be resolved. Reasonably enough, this proposal was rejected. Indeed, a scrutiny of the bank's staff structure suggests that a number of possible Egyptian candidates were deliberately rejected in order to avoid any appearance of submitting to blackmail. The UAR made no further payments, and by the end of 1968 more than 40% of total arrears in the payment of subscriptions was accounted for by the UAR alone.

As will be seen from Table 6, the bank had collected only 78% of the subscriptions due by 31 December 1965. Two and a half years later, collection had fallen to 60%.[1] It will also be noted that the countries which had benefited from bank finance—Kenya, Sierra Leone, Tanzania (indirectly), Tunisia, and Uganda—were also among the countries which had been most scrupulous in paying. All except Tunisia, which was slightly in arrears, were fully paid up. If there was a link between subscriptions and loan approvals, the fact that these countries had paid promptly from the beginning, before any projects were approved, suggests that the bank was rewarding them for their good performance, rather than vice versa. It is not known whether this was deliberate, but certainly there had been a running argument between the bank and its members, some of which had argued that they need only subscribe if they could be assured of loans of an equivalent value.

In defence of its members, the bank has occasionally justified their failure to meet their obligations in terms of the genuine difficulties that they encounter. In his address to the 1968 annual meeting, for instance, the president said: 'The mobilisation of this amount [$53,300,000] is no small achievement on the part of the African countries and is an unmistakable demonstration of their genuine effort for self-help. This

1. By 1 August 1969, collection had fallen to 57%. The overall pattern of payers and non-payers was still as shown in Table 6.

effort compares very favourably with the contributions of foreign exchange resources by the developing member countries of the other two regional banks. However, I would like to point out that the delay in the payment of subscription by some member countries confronts us with some very difficult problems.'[1] All three of those statements were true. What the president failed to add was that they were a fair summary of the African bank's dilemma. For political reasons, the institution had been set up on an exclusively African basis, but this basis proved too frail for the performance of its financial function. In effect, the bank was saying to the developed countries: 'Look, here is an enterprise in African self-help, so you should support it, as your help is needed to enlarge the resources at the bank's disposal.' From the point of view of the developed countries, it was hardly a plausible framework for the establishment of special funds.

Special funds

In 1965 and 1966, the president of the African bank travelled widely and frequently among the developed countries. As a member of the Committee of Nine, he had already had discussions in some developed countries in 1962, and he had found them very non-committal. As president of the African bank, he found the situation not greatly changed, so that in his address to the 1967 annual meeting he was forced to say: 'I must warn that our early beliefs that a premium on self-help would yield higher dividends have not yet materialised. We may have ultimately to rely on our own resources as we have hitherto, for a long time.'

Discussing this question with both sides at the time, the outside observer was given the impression that each was waiting for the other to take the initiative. The bank had invited the developed countries to tell it what they were prepared to offer. The developed countries were waiting, in principle at least, for the bank to make specific proposals and requests. Neither side seemed to take account of two vitally relevant pieces of evidence from the experience of other institutions. The bank, as an aid recipient in this respect, could have noted the extent to which the flow of aid could be stimulated by at least going through the motions[2] of formulating specific projects and programmes, in order to provide the developed countries with a more easily grasped framework for discussion. The developed countries, proclaiming their desire to strengthen international institutions, especially amongst the developing countries themselves, could have noted the extent to which

1. Fourth Annual Meeting of the Board of Governors, 'Opening address by the President', pp. 6-7.
2. See J. White, *Pledged to Development: A Study of International Consortia and the Strategy of Aid,* ODI, 1967, p. 211 et passim.

the strength of such institutions is a function of the free resources at their disposal. The example of the World Bank had shown that a strong institution can use its own free resources to attract bilateral aid, in parallel financing arrangements, while retaining effective control of the appraisal of the projects for which the aid is intended.[1] By demanding that the use of their own contributions should be specified in advance, the developed countries were frustrating this possibility, and forcing the bank into the position of a subsidiary institution, providing no more than a convenient cover for essentially bilateral finance. Senior officials in the developed countries argued that this and other such institutions 'did not yet have enough standing with donors' and that they were 'quite unproven'.[2] The reply could be given that they could not be proved until they were supported and used.

In its early approaches to the developed countries, the African bank drew explicit parallels in the resources they had provided for the Inter-American and the proposed Asian banks—thus weakening still further, incidentally, its claim to be distinguished from these as an exercise in self-help. From the outset, the Americans made it plain that they were prepared to subscribe to a special fund, and were receptive to proposals for the use of such a fund, provided that other countries did likewise. Unfortunately for the bank, it could not exploit this offer in its efforts to persuade other donors, because of the need to avoid giving France the impression that the bank was under American influence.

The two countries most heavily involved in Africa through their bilateral aid programmes—Britain and France—were among the most reticent. The French, partly as a result of the efforts of President Houphouet-Boigny, had withdrawn their earlier outright opposition, but they still regarded the bank with no more than tolerance. The British, whose aid programme had been under tight constraint since the beginning of 1965, argued that they were not in a position to consider *any* major new proposals in Africa. They made a provisional and carefully limited offer of technical assistance, and subsequently made an equally tentative offer of £1m, subject to negotiation as to its use. The British had in fact replaced the Germans, among the larger aid-givers, as the country insisting most strongly on proof of the African bank's viability and specification of the use of funds, as preconditions of any major financing.

In April 1966 the management of the bank began to work out a scheme for a multilateral soft fund, the resources for which would come from the developed countries. In November of that year, an *aide-mémoire* was drawn up, and subsequently dispatched to 27 non-African

1. White, op. cit., pp. 152-5.
2. In *Effective Aid*, ODI, 1967, p. 29.

countries, including the Western developed members of the OECD, the Soviet Union and East European countries, and the Peoples' Republic of China. What was proposed was a special fund of about $200m, financed by grants, with a minimum contribution of $10m. It was intended that it should be a genuinely multilateral fund, the uses of which would be governed by written rules and regulations, not by the particular preferences of individual contributors. The fund's resources were to be usable for procurement in any contributing country.

Little was said about the uses of the fund. There was a suggestion that it should be used primarily for meeting the developmental needs of the less well endowed African countries. More surprisingly, it was not suggested that the fund should be used for projects in the social sectors, for which grants or very soft loans are normally judged more appropriate. Instead, it was emphasised that priority would be given to projects contributing directly to economic growth, especially for power, transport, and other infrastructure projects. The use of soft funds for such purposes was justified by the argument that they were not directly remunerative.

Governments were also invited, perhaps as an afterthought, to open up two rather separate questions. First, they were given to understand that the bank was reconsidering the wisdom of the original decision to exclude non-African countries from its membership. Secondly, it was made plain that the bank was willing to consider more specific offers of finance for stated uses.

Whether because these last two points opened up issues that were too broad, or because the indication of uses barely differentiated the proposed soft fund from the bank's ordinary resources, thus giving the impression that it was merely seeking 'soft money for hard projects',[1] or simply because the aid-givers were no longer in a giving mood, the response to the *aide-mémoire* was very limited, causing the president to make the gloomy assessment which has already been quoted. Nevertheless, at the 1967 annual meeting a resolution was adopted in favour of the establishment of an African Development Fund along the lines proposed,[2] and the bank continued its efforts.

Over the next year, the picture began to change. Simply with the passing of time, as relations between France and its former colonies fell into some sort of a routine, the bank gradually became less concerned about the French Government. It thus found itself better placed to explore the long-standing offer of the USA. While this development

1. This is a favoured pejorative phrase of the staff of the World Bank which works on the principle that commercially viable projects should not be financed internally on soft terms, even if, for balance of payments reasons, soft terms are appropriate in external finance. The World Bank usually insists, therefore, that soft IDA credits should be lent onward at the rate appropriate to the project.
2. Resolution 3.66 of the Board of Governors.

probably indicated a strengthening of the bank's position, there were signs of a weakening in the tacit abandonment of the original conception of a genuinely multilateral fund, financed by the developed countries but controlled by the bank itself. Instead, the bank began to indicate more strongly its willingness to consider virtually any offer, provided it was not linked with explicitly political conditions. Faced with the 'realities' of what the developed countries were prepared to consider, the bank seemed, by the middle of 1968, to be heading for a situation in which it would be administering funds which were in effect a disguised form of bilateral aid, in the sense that the end use of the funds would be largely dictated by individual donor governments.

Even this, it could be argued, was better than not having any funds at all. At the 1968 annual meeting, the president reported 'some encouraging responses'. The USA had offered \$60m over a period of three years, provided this did not exceed 40% of total contributions to the fund. Britain and the Netherlands had said that they were willing in principle to contribute, though the amounts mentioned appear to have been rather small. Denmark, Finland, Norway, and Sweden collectively had agreed to contribute up to 10% of total contributions to the fund. If these offers are examined more closely, it will be seen that the cause of the improved atmosphere lay in a lowering of the bank's expectations, rather than an increase in the offers themselves. None of them was really new, and it was significant that the president felt constrained to mention, as a specially 'gratifying' feature of the Scandinavian proposal, that it provided for contributions in convertible form. Also, it was now thought most unlikely that the fund would exceed \$100-150m.

Presumably it was hoped that with some increase in resources the bank would eventually acquire the standing which would encourage the developed countries to put resources more freely at its disposal. It remains to be seen whether that will be the outcome. The trend of financing in all other international financial institutions points in the opposite direction, towards increasing restrictiveness.

Staffing

Article 37(5) of the agreement establishing the African Development Bank states that the president, in addition to trying to secure technically competent staff, 'shall pay full regard to the recruitment of personnel among nationals from African countries, especially as far as senior posts of an executive nature are concerned'.

The phrasing indicates that there was from the outset an awareness of a possible conflict between the need to recruit professionally excellent people and the desirability of recruiting Africans. At the 1963 conference in Khartoum, there was a bitter dispute, in which the UAR, in particular, argued that the senior staff and advisers should be exclusively African.[1] The point was accepted so far as senior staff were concerned, but not for advisers.

As soon as the bank had been established, two separate difficulties emerged. The first was that at the highest level the bank was trying to recruit people who could barely be spared from their own countries.[2] The second was that at the middle level Africans who were looking for posts in international institutions were likely to prefer the delights of European or American centres, where there were international institutions which were all too eager to accept any competent African candidate, in order to maintain their staff quotas. The only African country with more than a handful of appropriately qualified candidates was the UAR, but the UAR overplayed its hand by insisting that staffing should be in proportion to subscriptions, and by linking this demand to payment of its own subscription, as a result of which the bank became more resistant to Egyptian recruitment than it would otherwise have been.

The conflict between professional standards and Africanisation need not have been so acute as it in fact became. The case for having Africans in the senior positions was clear-cut. It rested primarily on the political need to establish the institution's African identity. Initially, the politics of this issue seemed to have been recognised in the appointment of the four vice-presidents—from Kenya, Mali, Nigeria, and Tunisia—which showed a neat balance in terms both of external and of internal African alignments. Given this strong and broadly based African control in the management of the institution, it was assumed that the technical work could be carried out by professionals supplied under technical assistance or through some other channel.

Three factors intervened to break down this implicit but fairly clear distinction between political control and professional execution. The first was the difficulty of recruiting even the few Africans needed for key posts, as a counterbalance to the expected non-African professional staff. The second was the inappropriateness of the technical assistance offers that the bank received. The third, arising out of the first two, was an incipient loss of self-confidence in the management, which rendered them fearful of accepting almost any offer of technical assistance, lest it should infringe on the function of management and impose an alien stamp on the institution.

Early on, the bank gained the impression that it could meet all its staffing needs if it accepted a package deal from one or another of the developed countries—perhaps the French or the Americans. The dangers of such a choice were obvious, though one may remark in

1. Summary Record, pp. 33 and 162.
2. Pressure was put on the bank, for instance, not to recruit a vice-president from Mali, on the ground that the whole Mali economy depended on the person in question.

passing that the choice itself appears to have been somewhat imaginary, since extensive enquiries have failed to reveal any such attempted take-over by either of the obvious candidates. The offers of international agencies suffered from the contrary deficiency of not being sufficiently integrated, in a manner that would have provided concerted support. The World Bank, for instance, seems never to have made good on the offer made by Mr. Woods at Khartoum,[1] pleading that it could not release the appropriate staff from their own duties in Washington, and in general co-operation between the African bank and the World Bank seems to have been on a somewhat fitful case-by-case basis.

The difficulty of recruiting Africans at the appropriate level was part of the wider problem of how to secure a strong African commitment to an institution which remained subsidiary, both to the bilateral sources of aid, and to institutions, such as the World Bank, which the developed countries dominated. Some quiet approaches to individuals were made, but the return was small. Year after year, the president would appeal to the Board of Governors, while momentum ebbed away.

The obvious solution would have been an energetic recruitment campaign outside Africa, to fill specified posts with carefully defined terms of reference. While some indirect approaches do appear to have been made, this was not the main course that was adopted. Instead, the bank went to the United Nations, taking up an offer that the UN Special Fund had made at the Khartoum conference.

After some lengthy negotiating, an agreement was signed, in February 1967, between the bank and the UN Development Programme. The UNDP was to establish and staff a pre-investment unit within the bank. Over a five-year period, it was to provide $2,700,000 against a total estimated cost of $4,900,000. Initially, there appeared to be divergent interpretations of the extent to which the unit would constitute an operational department. The bank, reasonably enough, regarded it as a bridging exercise which would give it time to build up its own staff. The UN regarded it as a simple technical assistance project, and insisted on the provision of counterparts for training. The absurd result of this demand was that a part of the bank's tightly limited staff was absorbed into the pre-investment unit, which thus, far from preserving its technical assistance character, came in effect to dominate the operations department of the bank, thus frustrating the intentions both of the bank and of the UN. Furthermore, difficulties in recruiting appropriate staff through the UN system had resulted in the appointment of a mixed group which was not well designed for the delicate and imaginative task of institution-building with which it was faced. The pre-investment unit, however, was the only department that

1. See p. 100.

was fully staffed at the end of 1968. Its dominance was inevitable. To the outside observer visiting the bank in late 1968, the management seemed noticeably less in control of policy than it had during a previous visit in 1966. The creative, if still unrefined and unimplemented, ideas of the early years had given way to a narrow technocratic approach. According to the annual report, there were 24 African professional staff members, but it was still not possible for a visiting observer to trace the outline of a team, with allotted functions. The embarrassing result was that the over-worked president and vice-presidents still seemed to be carrying the burden largely unaided, except by the pre-investment unit, so that they were performing tasks which in a more developed institution would have been performed at a lower level, including the task of information officer. In a weirdly depressing way, the absence of a broad range of African staff, whether professionally qualified or not, gave more of an impression of a foreign-dominated institution than would have been the case if numerous Africans had been outnumbered by even more numerous non-Africans. But the domination is perniciously indirect. It comes through the technocratic habits of thought of a 'pre-investment unit' which applies conventional professional criteria without political guidance. The politics of the institution had faded under the pressure of the need for international respectability. The management had been right, initially, to look askance at package deals. Where they had gone wrong was in supposing that the danger of a package deal was political, the danger of coming under the control of a single country. On the contrary, the danger was in the supplanting of politics by undirected and therefore misapplied professionalism; and this was a danger which was bound to be imported by a team from the UN, as from anywhere else. Passing references have already been made here—and the question is taken up again in the concluding section of this chapter—to the progressive abandonment of the essentially political, and defiantly political, concept that took shape at Tunis in 1960. The acquisition of a solid block of staff not committed to that concept was, if not the cause of its abandonment, at least a significant indicator; and it raised the question whether there was really a special role, in terms of projects or of national programmes, for the African bank to play.

The competition for projects

The articles of the African bank require it to give a special priority to multinational projects. At the same time, the articles are deliberately vague on the question of what this means, so that on a liberal interpretation any project that benefits more than one country can count. This vagueness is potentially valuable. The Committee of Nine, and the participants in the Khartoum conference, were well aware that African integration requires more than the building of a few roads or the establishment of a few telecommunications links across national boundaries.

At the outset, the management of the bank was aware of this too. Careful thought was given to the question of how the bank should best exploit the wide range of choice allowed to it under its articles. With a wide range of choice, the bank—or, more accurately, its president—developed a wide range of useful ideas, some of which were subsequently developed in more sharply focused explorations. Consultative relations were established with UNESCO and WHO to secure these organisations' co-operation in education and health programmes. Like the Inter-American bank before it, it looked at the possibilities in housing and urban water supply. In several other areas, it laid the basis on which it hoped to expand operations once it had the resources to do so.

Yet one heard repeated critical comments, both in African capitals and in aid-giving agencies, to the effect that the bank was not *doing* anything. How was such an impression created? To answer that question, one has to look more closely at the principles of selection which the bank was applying.

Three criteria were uppermost. First, there was a search for projects which would contribute to the linking of African countries, not merely physically, but also in terms of markets. Secondly, in some key sectors, there was a healthy questioning of established financial practices, with a view to finding the most appropriate developmental method of operation. Finally, it was firmly held that the bank's first few projects should be conspicuously 'bankable', in order to attract the confidence of the developed countries. The first of these criteria, however, was difficult to apply. It was found that one or two projects which would have implied a forceful interpretation of the 'multinational' requirement—for instance, a refrigeration plant in Upper Volta which would have obviated the need to export meat to the Ivory Coast on the hoof—could not be financed without involving the bank in political disputes over the location of projects, which it could not afford. At the same time, the second and third criteria were to some extent in conflict with each other. In course of time, the emphasis shifted more and more to the requirement that projects should be 'bankable'. On the face of it, this merely meant, following World Bank practice, that the bank should give preference to projects with a good economic return, taking the internal rate of return as the crucial measurement. As has been shown in the analysis of loan policy,[1] however, the bank was working within such tight limits that it tended to look for revenue-earning projects, in which there was a quick financial return which could be demonstrated within the framework of conventional investment appraisal.

1. See p. 108.

The simple and obvious reason for this was the smallness of the bank's effective resources. The bank simply could not afford to experiment, for fear that its resources might be exhausted before the success of the experiment had been demonstrated. Certainly the conventional notion of project financing needed fundamental rethinking in the African context, especially in relation to such questions as sectoral emphasis, the role of the lending agency, required types of borrowing agency, local cost, recurrent costs, etc. But the African bank, with severely limited resources, was not equipped to take on such a task. It could not afford the double risk, both of losing its reputation and of losing its money.

One way round the difficulty would have been to engage in parallel financing, with the bulk of the external finance for each project coming from bilateral aid or from another international agency, and with the bank providing, in addition to a small share of the total finance required, technical and co-ordination services. This would also have satisfied the requirement that the bank should act as an agency for mobilising additional resources. If this course had been adopted, however, it would have blurred the edges of the bank's separate identity. More seriously, only the USA was really prepared to co-operate. It was vital that the bank should retain the initiative, acting, to use the phrase favoured by the Inter-American bank, as the recipient's 'financial agent'. A proposal for joint financing of a telecommunications project in East Africa, by the World Bank and the African bank, had to be abandoned because the World Bank, in the African bank's view, was insisting on treating it as a conventional World Bank project, allowing the African bank only a marginal participatory role. The World Bank's case for retaining control of the negotiations was that it was providing the bulk of the finance, and that in any case it was more experienced. The first of these arguments was one that the World Bank had itself rejected in cases where it was co-operating with bilateral donors. The second ignored the political need to make the African bank conspicuous.

Of the projects listed in Table 5, therefore, only one contained an element of parallel financing, from the US AID. For the rest, the problem which the bank faced was not how to attract parallel finance, but how to persuade its members to look to the African bank rather than to other, larger sources of aid.[1]

Most African countries had sources of aid which could be secured on softer terms than those of the African bank. But a more seriously inhibiting factor was the relative lack of identifiable sound projects. The African bank was not the only institution in Africa hunting for projects with an assured high rate of return. About the time when it

1. See p. 89.

was established in Abidjan, the World Bank set up two regional offices, one in Abidjan and one in Nairobi, precisely in order to intensify the search for projects which would fit its criteria. These criteria were more or less the ones adopted in practice by the African bank. The World Bank's Abidjan office had been located there in principle to promote co-operation between the two institutions. The real situation was one of open competition and mutual suspicion. The World Bank's Abidjan office was staffed mainly with engineers and other technicians, whose experience hardly equipped them to appreciate the political problem of relations between the two institutions. But even at a higher level there was little understanding. The World Bank's lack of interest in the African bank is indicated by the fact that for a while relations with it were entrusted to a middle-level official in the International Finance Corporation, as part of his general responsibility for the World Bank's interest in *national* development banks. Later, responsibility for relations with the African bank was divided among the heads of the relevant area departments. The World Bank continued to channel information to the African bank, as it has done for the Asian and Inter-American banks, e.g. on external debt and on loan negotiations, but these by-products of the World Bank's own operations constituted a less than forceful contribution to a co-operative relationship, which would have required regular consultation at a higher level, and a division of labour. The obvious objection to this approach, that the African bank was not yet equipped to take part in a fully co-operative relationship, ignores the case for building up the institution *through experience*. Another possible objection, that the World Bank's vice-presidents are too busy to take on responsibilities of this kind, rests on an assumption that the bank either (a) attaches low priority to external relations or (b) attaches low priority to the African bank among the institutions and governments with which the World Bank's external relations are concerned.

It is not surprising, therefore, that the African bank spent its first few years trying to develop its ability to identify possible projects. As a new institution, however, it had to rely largely on studies already undertaken by other agencies. In doing so, it was in danger of taking over the criteria of these other agencies wholesale, and within that framework it was likely that the projects which had not yet been financed were merely other agencies' rejects. Studies of a broader nature were available from the Economic Commission for Africa, but these were not well tailored to the bank's project-oriented requirements. Besides, the bank had taken pains initially to establish its independence from the ECA. There appears to have been a real anxiety that by taking on the ECA's intellectual framework the bank would revert to being little more than a special fund at the ECA's disposal. Among other sources of preliminary studies the most promising appeared to be the UN Special Fund (subsequently absorbed into the UN Development Programme). The Special Fund was able to provide a number of preliminary studies, mainly in fisheries, water resources, and transportation. Presumably the subsequent establishment of a pre-investment unit staffed by the UNDP would give added emphasis to the use of this type of material.

In this account of the bank's approach to project selection, attention has been focused on the dilemmas which confronted the African bank at every stage. What seems a gloomily complex picture, however, is really very simple. Once the bank had decided to concentrate on project finance, the drift towards an increasing emphasis on 'bankable' projects was inevitable. This in turn linked the bank more and more closely with the international family of (non-African) financial institutions, and deflected attention from the need to find a firm place for itself within the *African* family of international political institutions, notably the ECA and the OAU.

Why did this happen? The answer lies in the smallness of the bank's resources, which forced it from the outset to develop, or seek to develop, all sorts of external links. Even so, the course of events was not inevitable. The choice of direction—and subsequent experience has shown that it was a mistaken choice—was taken in the decision to concentrate on isolated projects, from which, in the African environment, everything else flowed.

There was an alternative, in the possibility of a broader approach addressed to needs at the national level. The adoption of such a course would have taken the bank more deeply into the politics of African unity. Far from being an undesirable development, this was one of the main purposes for which the bank was set up. In terms of the bank's limited resources, an approach of this kind would have had to be addressed primarily to the bank's smaller and weaker members, which were also, of course, its smallest subscribers. That, too, would have been a choice with political implications, and it is not certain that these implications were acceptable to the bank's larger members; but it was worth a try.

And the bank did try it. In this respect, one of the most interesting strands in the evolution of the bank is the progress of its thinking on what it euphemistically calls its 'relatively less developed member countries', and what the French call more bluntly. . . .

Les demi-états

The distribution of voting power among the members of the African bank was designed to give some assurance to the smaller and weaker members that they would not be swamped. At the Conference of Finance Ministers in Khartoum, the representatives of some of these smaller countries wanted to insert into the articles of agreement some more explicit commitment in their own favour. This attempt was resisted, on the ground that it was in the nature of the bank's purpose that it would give special attention to the smaller countries' problems, and that this did not need to be formally spelt out in the articles. Since then, the management of the bank has devoted much thought to the initiation of programmes which would give effect to this promise.

There are at least three non-economic reasons why it should be natural for the African bank to give priority to its smaller members.

First, in purely practical terms, the smallness of its own resources suggests that it should concentrate on limited tasks. Essentially, this means that it should choose between concentrating on projects of a certain type or on countries of a certain type. If it concentrates on projects of a certain type, the need to husband its resources will push it into financing revenue-earning projects, for which finance is likely to be available from other sources. In moral and political as well as economic terms, a scale of priorities related to countries rather than to projects makes more sense.

Secondly, the bank has a commitment to multinational projects. However, if it does not simultaneously tackle the problem of disparities between countries, there is a danger that a concentration on multinational projects will merely reinforce an existing bias in favour of the established centres of economic growth. Abidjan's prosperity is resented by the other members of the Entente,[1] Nairobi's by its East African neighbours.

Finally, the external vulnerability of the *demi-états,* their almost total dependence on the continuing good will of the former metropolitan powers, represents in extreme form the constraints of the African environment; and it was these constraints that the bank was set up to break.

In July 1966 the management submitted to the Board of Directors a proposal for an 'accelerated programme' on behalf of the smaller members. It argued the case for such a programme almost exclusively in economic terms. In particular, it pointed out that the fragmentation which came with independence had been especially damaging to the smaller economies.

The bank was on less sure ground when it also claimed that the smaller countries were unfavourably treated by the aid-giving countries, which tended to channel their aid to the larger and relatively more developed countries where it was easier to identify projects with a high rate of return. Such a supposition can be refuted by the most cursory examination of aid statistics. In this respect, the bank was exhibiting its own vulnerability to the environment which it had been created to alter. That environment is one which encourages a distorted view

1. Dahomey, Niger, Upper Volta.

of Africa's problems, imbued with a resentful conviction that these problems are exclusively the product of an external conspiracy. The bank has consistently argued, against all the statistical evidence concerning the bias in *favour* of small countries, that little African countries receive less aid than big ones, that African countries as a whole receive less aid in relative terms than other countries, and that this constraint is exacerbated by economic trends which work especially to Africa's disadvantage, and over which Africa has no control.[1] There may be many imperfections in aid to Africa, but its volume, compared with the volume of aid to other developing countries, is not among them. In its analysis of the problems of its smaller members, the bank was indulging in fantasy.

In its approach to the resolution of those problems, however, the bank came very close to identifying a possible long-term role for itself. The accelerated programme was ambitiously conceived. In selected countries, the programme was to have three main objectives. First, it would be aimed at developing key sectors in a manner that would strengthen and diversify the economy as a whole. Secondly, it would seek to reintegrate the economies of neighbouring countries, mainly through the co-ordination of their decision-making processes. Finally, though this was less clearly stated, the bank would act as financial agent for these countries in their negotiations with other sources of aid. (The reason for a degree of ambiguity on this point was presumably the need to avoid giving an impression that the bank wanted to supplant their existing, and actually rather munificent, sources of aid.)

To these ends, the bank proposed the establishment of a professional task force for each selected country. In addition to providing technical assistance, it was proposed that the bank should set aside a part of its own resources for lending on relatively favourable terms.

One curious feature of the proposal was the list of criteria for the selection of countries, which included such secondary economic characteristics as a country's inability to finance its recurrent budget.

The proposal was not well received. Officials in the developed countries argued that the bank was over-reaching itself. Among its own members, there were doubts concerning the proposed concentration of the bank's resources, and, more surprisingly, the proposed departure from strict banking criteria.

Accordingly, the proposal was reformulated for submission to the Board of Governors in 1967. The new formulation[2] was both more modest and more ambitious than its predecessor. The proportion of the

1. This argument recurs in the papers which the bank has distributed on the 'accelerated programme' and on the mobilisation of external resources. It is also to be found in the annual reports. The 1967 report, for instance, sees 'unfavourable external influences on trade' as the main influence on growth rates.

2. 'Working Paper on Special Programme for Relatively Less Developed Member Countries', ADB/BG/III/2.

bank's own resources to be set aside for the programme was reduced from 25% to 15% of its capital, and it was recognised that 'the success of the Programme would depend on the Bank's ability to mobilise additional resources'. The earlier emphasis on the construction of a comprehensive planning framework gave way to a focus on 'helping the countries in the preparation of bankable and aid-worthy projects', and an immediate concern with 'the determination of the order of priorities, the identification of strategic sectors and the formulation of programmes for such sectors to enable early action to be taken'.

This more practical approach was balanced by a more explicit recognition of the political context of the proposal, in the abandonment of somewhat artificial economic criteria in favour of a simpler identification of those members of the bank 'whose subscriptions are below a certain amount'.

Even in this modified form, the proposal was open to a number of doubts concerning its feasibility. In particular, it seemed to require greater technical resources than the bank possessed, and greater financial resources than the bank could summon. It was therefore regarded with some reserve by the Board of Governors, which referred it back for further study. By the time when the 1967 annual report came to be written, the hard core of the proposal had been reduced to a suggestion that the bank should carry out 'special studies in specific fields for formulation and financing [of the] special programme'.

This shrinking of the bank's ambitions, though perhaps realistic in terms of the resources at its disposal, was bound to have a deleterious effect on its evolution. The Board of Governors made the mistake of regarding the bank primarily as a technical and financial institution; and seen in this light it was bound to appear less well endowed for the job than almost any alternative agency. The aid-giving countries made exactly the same mistake, and therefore failed to see why they should channel resources through the bank when those same resources could be applied more swiftly and probably more 'efficiently' within the framework of established bilateral relations. The bank itself was partially responsible for this state of affairs, to the extent that it chose to emphasise the more technical aspects of the programme and of its own role, a role which it was plainly not yet competent to fulfil.

A more openly political approach, in which attention had been focused on the political impact of excessive dependence on large injections of recurrent bilateral aid to bolster an unviable economy, and in which the bank had based its appeal for funds on the political desirability of strengthening this nascent African institution, rather than in the frail credibility of its non-existent operational record, would have come nearer to the heart of the matter. It would also have attracted respect for its honesty. It might even have attracted the support of the bilateral aid-givers, who were in the habit of alleging that they were only too anxious to find a way of transferring responsibility for this residue of colonial rule.

As it was, the bank chose to adopt the language of international finance, which made little sense when one was talking about countries such as Dahomey, Mauritania, or Malawi.

5 Prospects

Throughout this account of the African Development Bank, the emphasis has been on the problems which it faces and on its failure to resolve them. Indeed, the historical record of the institution is a record of little else but blocked initiatives and unresolved dilemmas. By comparison with the Inter-American bank, and even with the Asian bank, the African bank appears at first sight to be fatally lacking both in momentum and in the resources by which momentum might be generated.

But the future is not so gloomy as that picture might make it seem. The problems of the African bank are the hard-core problems of a regional institution whose function is to provide a developmental focus for its members. These problems have weighed on the African bank because the African environment and the circumstances which led to the bank's creation combined to place it at the centre of Africa's historical search for its own pattern and style of development. If the Asian and Inter-American banks appear more stylish, if they seem to have progressed with greater institutional momentum, it is not because they have overcome the problems of a regional bank, but rather because they have never even encountered them. In terms of the political perspective within which this study is contained, the African bank appears in the long term to hold the greatest promise of the three institutions, precisely because in the short term it appears as the most problematical.

That claim may appear unduly perverse, especially since it is a claim derived, not from the bank's successes, but from its failures. Certainly, it is a claim that may easily turn out to be wrong. The recurrent retreat of the present management into the clichés of acceptable international financial practice, the vanities and pretensions evinced in such manifestations as the bank's determination to have a building at least equal in splendour to the buildings of foreign agencies operating in Africa, the constant emphasis on a wholely fictional 'objectivity'; pieces of evidence such as this must cast doubt on the ability of the bank to serve the essentially African aspirations in which it was conceived. The claim advanced here, however, may be substantiated by referring back to some of the main problems which have been identified in the preceding sections.

For a start, it is appropriate to take that feature of the bank's structure which has been most widely criticised and to which its weaknesses are most commonly attributed—its capital structure. If it is the case that the central political function of a regional bank is to challenge the conventional wisdom of the times and to shape a developmental philosophy more particularly appropriate to the region which it serves—and that is the fundamental premise of this entire study—then the African countries were surely right to exclude non-African capital. Even in the Inter-American bank, the Latin Americans, much more favourably placed, barely manage to hold their own. The Asian bank is more conspicuously the creature of its developed members (including Japan). How could the Africans have resisted the pressures generated by the presence of the USA or of the former colonial powers on the board?

No non-African members, however, meant no money, or at least very little. Here a sort of arithmetical law—two minuses make a plus—seems to operate. No non-regional members and no non-regional money have the same effect as some non-regional members and some non-regional money. In the African bank, it started with increasing emphasis on the pretence—it is no more than that—of 'self-help'. After that initial departure from reality, there was an inevitable regression, which has been traced here, towards increasing use of the slogans commonly employed by international agencies, epitomised in the attachment to the concept, almost wholly useless in the assessment of developmental policy choices, of 'strict banking criteria'. An almost identical regression can be traced in the evolution of the wealthier Asian bank.

Again, the bank's first attempt to escape from this situation, through the establishment of a multilateral special fund controlled by the bank, was in the right direction. But it was a direction that the developed countries at that time were not prepared to contemplate. Arguing that the bank was still untried, they insisted on negotiations, the purpose of which would be to channel the resources in directions which they themselves thought desirable. They thus deprived the bank of the independent means by which it might have developed its own identity, which alone would have created the justification for supporting it with further funds.

In this and other directions, one sees the evolution of the bank repeatedly brought up short by a failure of perception. This failure was common to the developed countries, the bank's African members, and the management of the bank itself. Essentially, the failure lay in regarding the bank merely as yet another technical agency—distinguished only by the label African—the purpose of which was to perform a known technical and financial function. A regional bank, if it is to offer anything that may distinguish it from the global institutions of the UN, and in particular from the institutions of the World Bank group, must be more exploratory than that. Every time a regional bank goes to the World Bank for advice on methods or on data, it weakens the case for its separate existence. It has to devise *new* functions. It has to go to the heart of the matter, and define what it is that is thought desirable in the development process.

Most textbooks on development include a chapter asking the question *why* poor countries should want to develop.[1] A more relevant question is *how* they should want to develop. The task of answering that question is not one that can lightly be undertaken by countries other than the developing countries themselves, yet all too often it is. And within the developing countries the value premises and the prescriptions of the developed countries are all too readily applied. The political function of a regional bank is to provide an alternative source of prescriptions. That is a function which was within the scope of the African bank as originally conceived, and the feature which was common to all the bank's subsequent difficulties was the failure to translate that function into an operational programme.

If the bank's constraints seem unbroken, their resolution, though difficult, is not particularly complex. There are three requirements. The first, and perhaps the hardest to achieve, is a more effective commitment to the institution on the part of its members. The bank's poor record in the collection of subscriptions is only a symptom of a more serious lack of any real conviction, on the part of the African countries, that it can be developed as an institution of central significance. Their view, which seems to be shared by the management of the bank itself,[2] is that it can only be of marginal significance; and so it will be, so long as its members are content to leave the present pattern more or less undisturbed. What is required here is not so much that the African countries should pay more attention to the bank as a source of project finance, but rather that they should seek to involve it in their negotiations with the bilateral aid-givers and with the global agencies of the UN. In the short run, that would not make such negotiations run any more smoothly. It might even have an adverse effect on the flow of aid. But the immediate flow of aid is of subsidiary importance. In the long run, a deliberate promotion of the bank by its members could contribute to the growth of an institutional framework in which the African recipients of aid were less at the mercy of events.

Secondly, some thought must be given to the delicate question of the

1. Perhaps the best known example is the Appendix in W. A. Lewis, *The Theory of Economic Growth,* George Allen and Unwin, 1955. See, also, G. Myrdal, *Asian Drama,* Allen Lane, The Penguin Press, 1968, Chapter 2.
2. This judgement, like some other attributions of opinion given here, is derived from lengthy private conversations.

role of the bank's president. This question is of particular importance in the case of the African bank, because the difficulty of recruiting a full complement of supporting staff and the weakness of the institutional frameworks of some member states require the president personally to play an unusually large part in maintaining the bank's internal momentum and its external relations. Mr. Beheiry was appointed on the reasonable assumption that a distinguished and experienced banker would win respect for the institution, both among its African members and among the developed countries from which it hoped to attract funds. But the assumption turned out to be over-optimistic. The member countries, given the bank's failure to attract additional funds, did not have any great inducement to involve it in their development programmes. The developed countries, sceptical of African political commitment to the institution, and consequently of its ability to have a significant impact, saw no strong reason for allocating resources to it. Mr. Beheiry thus found himself in a peculiarly frustrating position, and in 1968 he announced that he did not intend to seek reappointment. Although his public statements alluded to personal considerations, there can be little doubt that he would have felt less discouraged if the bank had made more progress. Mr. Beheiry's dilemma, however, was essentially political, not financial. So long as his institution continued to rest on the established principles of international development finance, African countries would prefer other, better endowed sources of such finance, and the African bank would remain weak. The bank's immediate need is to define a political role for itself which will give it an inalienable place in the range of African international institutions, which no non-African agency can fill. The delicate task facing the president, therefore, is to introduce a larger, but still limited and clearly defined, political content into the bank's operations, without going so far that the bank ceases to be able to operate as a development agency. Axiomatically, there can be no model for the performance of this task. Though it is what the Inter-American bank has succeeded in doing in the different context of Latin America, the African bank has to define its own role in the particular context of African conditions.

Finally, the bank needs resources. It is absurd to argue, as the developed countries argued, that the allocation of resources must be determined in the light of the bank's record. How, without resources, is it to acquire such a record? In allocating resources to the bank, the crucial question is not whether those particular resources will be 'better' used (i.e. more in conformity with the donors' criteria) if channelled through the bank than through other channels. They almost certainly will not be. But that does not affect the value of allocating resources to the bank as an exercise in institution-building. Equally it is hypocritical to offer the bank technical assistance instead of money. To do so is to deny it the status of an 'African' bank, and thus to remove the justification for its existence. The case for allocating resources to the African bank rests, not on a technical evaluation of its present financial competence, but on a value judgement concerning its long-term political significance. Of course, a gamble is involved. But the recorded achievements of bilateral aid in Africa are not so dazzling that the developed countries can afford to dismiss any experiment out of hand, however remote the apparent chances of success. As it happens, the chances of success in the case of the African bank are rather less remote than in some other ventures of the aid-givers in Africa which come to mind. And the sum involved is paltry. A decision to allocate \$200m *a year* to the bank would involve no more than perhaps 10% of the present annual aid flow to Africa. That sum could even with advantage be transferred from some existing bilateral programmes, though it has to be admitted that the principal obstacle to any such transfer would be the objections of the African countries themselves.[1] If there is indeed a risk of money wasted, it is far outweighed by the value that might be derived from the success of this very tentative but still pioneering venture in African co-operation.

The three fundamental requirements, then, are a stronger African commitment to the bank, a clearer identification, in a political context, of its place in the range of African institutions, and a generous provision of special funds. The likelihood that any of these requirements will be fulfilled, let alone all of them, is remote. However, acceptance of some lesser solution would not mean merely a second-best bank. It would be no solution at all. To accept disguised bilateral money as a substitute for multilateral funds, for instance, is worse than accepting nothing.

If the requirements could be fulfilled, desirable developments would follow almost automatically. One would expect to see, for instance, a completely rewritten loan policy, addressed to African problems and designed to identify the bank's special role, instead of being designed to look convincing in the promotion of non-existent bond issues. One would expect to see the 'accelerated programme' taken up much more forcefully. One would expect to see the bank confidently developing its relations with the ECA, the OAU, and other African institutions, instead of seeking external props from global agencies such as the UNDP, or, still more incredibly, the FAO. One would expect its pan-African character to be realised in the establishment of sub-regional offices, which would have the additional advantage of counteracting the

1. If the transfer were taken out of any proposed *increase* in aid to Africa, however, it would be less conspicuous. Besides, if the donors demand the right to retain control of the allocation of aid, as they do, it is hardly logical for them to reject the case for such a transfer on the grounds that the recipients might object.

tendency towards dogmatism which is inevitable in any headquarters-oriented institution.

All this can be had for the price of a marginal diversion of resources. Of the three basic requirements which have been identified here, the easiest to fulfil, because it involves only a marginal decision, not a fundamental one, is the establishment of an adequate special fund. The other two requirements are affected by the constraints of the African environment: but the effects of that environment might just be pushed back if the African bank were endowed with abundant resources. There is no disguising the fact that the future of the 'African' bank, like so much else in Africa, is in the hands of the developed countries.

4 The Inter-American Development Bank

1 The Differentiating Factor

For comparison, the preceding studies of the African and Asian banks have been set within broadly similar frameworks. In extending the comparison to include the Inter-American Development Bank, one is immediately faced with two problems of presentation. The first is the difference of time-scale, the fact that the Inter-American bank has an operational record some six years longer than that of either of the other two institutions. The second is that the processes which brought it into being were so profoundly affected by broader historical movements within the western hemisphere that it would be misleading to isolate a single chain of events as constituting the 'origins' of the Inter-American bank, equivalent to the studies, discussions, and negotiations which shaped the African and Asian banks.

If these were *only* problems of presentation, they would be of little interest. The problem of time-scale could be solved by compression, and the particular features of the Inter-American bank's origins could be demonstrated by identifying, within a congruent if not identical framework, the main points of difference which marked it out from the equivalent institutions in Africa and Asia. These apparent problems of presentation, however, reflect a more fundamental difference, which has had an important and continuing bearing on the way in which the Inter-American bank has evolved. For that reason, and because the particular nature of the bank's origins requires a slightly different arrangement of sections from that of the preceding chapters, it is necessary to identify this crucial differentiating factor at the outset, anticipating to some extent our subsequent conclusions.

Superficially, the factor that differentiates the Inter-American bank most clearly from the African and Asian banks is the greater volume of resources at its disposal. In Chapters 2 and 3, it was shown that financial constraints, in addition to limiting the scale of operations, had a qualitative effect on policy. The Inter-American bank, in contrast, has succeeded in attracting additional resources as it needs them.[1]

The question remains: why has the Inter-American bank received such favourable treatment? It has been shown that the Asian and African banks, in their loan policies, took every possible precaution to inspire confidence in the world's capital markets, and the Asian bank,

1. See pp. 157 ff.

if not the African bank, had at least as much political backing from the developed countries as the Inter-American bank ever had. Yet the Inter-American bank continued to attract resources, even after the climate for development finance had deteriorated.

It is difficult to find an explanation in any comparison of operational records. Clearly, it would be misleading to compare an evolutionary process which has gone on for nearly a decade with the early exploratory efforts of two institutions which at the time of writing were still in the first stages of shaping their identity. More relevantly, it is difficult to compare the record of the African and Asian banks to date with the equivalent period in the Inter-American bank's early history. In discussing that period, officials of the Inter-American bank, and of other institutions which were associated with its creation, show a degree of hindsight which imparts greater consistency and rationality to a number of early decisions than can be found in the relevant documents. It may be the case that the Inter-American bank's characteristic approach to the problems of the region that it serves was developed as consciously, and on such consistent assumptions, as the originators of that approach would now have one believe : but such evidence as can be gathered suggests not. In seeking an explanation of the way in which that approach was shaped, one is driven to an analysis of the structure and history of the Inter-American system. In the evolution of the African and Asian banks, in contrast, one finds a sufficient explanation in the formula set out in their respective articles of agreement.

That brings us back to the second of the two questions which were raised at the beginning of this section, concerning the forces within the region by which the bank was shaped. In setting the scene for an explanation of the course taken by the African bank, it was shown that intraregional and extraregional forces effectively cancelled each other out, opening the way for a process, described in the second section, whereby a formula already developed in quite another context gained increasing acceptance. In the case of the Asian bank, it was shown that the absence of anything that could be identified as a consistent and coherent set of intraregional forces rendered the question of their interaction with particular extraregional forces superfluous, thus producing the same result as in Africa.[1]

From that point, it became appropriate, indeed essential, in both cases to analyse the formula itself in some detail, as manifested in the two institutions' articles of agreement. This in turn provided a basis from which to show how, in the early evolution of both institutions, a habit of circular reasoning developed, in which the formula constituted the major conditioning factor in determining how the formula should be interpreted.

1. For a fuller explanation of the reasons for this similarity, see Chapter 3, Section 5, especially p. 132.

In this respect, perhaps the most significant feature of the Inter-American bank's origins is a necessarily unique and very simple one, the fact that it was the first of such regional institutions to be established. The Inter-American bank, admittedly, borrowed a formula. Its articles of agreement are in many respects clearly modelled on those of the IBRD. But it added to this formula the new and creative element of its regional identity. The formula was accepted as a necessary and well tested framework. What one did within that framework remained to be defined. And in the defining of it the staff of the Inter-American bank necessarily performed that act of defiance, the proclamation of separateness, which was identified in Chapter 1 as the initiatory political act which is crucial to the categorisation of all regional institutions.

When the African and Asian banks borrowed from the articles of the IBRD, they did so by virtue of an exemplar. The framework implicit in the formula seemed to carry its own functional logic, in terms of the tasks which such institutions were intended to perform. What had previously been defined was no longer merely the general prerequisites of an international development finance institution, but the precise nature of a new category of institutions called 'regional banks'. No further definition was apparently required.

The necessary substantiation of this rather sweeping interpretation is to be found at a very public and accessible level, in the speeches of the presidents of the three institutions. In the case of the Inter-American bank, one finds a repeated acknowledgement of the utility of the principles implicit in the formula, followed by a strong, indeed an exuberant, emphasis on the need to identify the particular Latin American problems to which those principles may properly be applied. In the cases of the African and Asian banks, one finds an *assertion* of the particularity of African and Asian problems, followed by a strong, indeed a stolid, insistence on the appropriateness of the formula as a means of resolving them. Even if it is argued, as it may be, that the difference is one of personality, the question remains, why such different personalities were seen as appropriate to their respective institutions. The difference may be only one of emphasis, of tone, or, to use the term adopted here, of style. It is none the less crucial.

The differentiating factor, then, is simply that the Inter-American bank was the first of its kind. It added to an existing formula the concept of regional identity, and took that as its point of departure. For its successors, it was difficult to see what more could be added. The formula appeared already complete. They thus lacked that drive, the absence of which is repeatedly noted in Chapters 2 and 3, to identify some particular method, yet to be discovered, which could be characterised as a regional approach.

Perhaps the search is illusory. Certainly an analysis of the Inter-

American bank's loan policy shows that it is less original than the character of the institution would lead one to suppose.[1] But the search is necessary, for it is the basis of the demand which brings such institutions into being.

The nature of that demand, however, suggests that a note of caution is appropriate. It was not by chance that the Inter-American bank emerged as the first institution of its kind. Latin America had for some time been trying, however fitfully, to achieve a more integrated pattern of political and economic relations. This movement created a demand which existing institutions could not meet, a demand to which the creation of the Inter-American bank was the response. It was shaped by the demand, not by some more general belief in the value of institutions of a particular type.

This demand was also effective in the shaping of other institutions in the Inter-American system. To a greater extent than the African and Asian banks, the Inter-American bank is *part* of a system of regional institutions. This crucial connection, which figures prominently in the later sections of the analysis offered here, is expressed in formal terms in the status of the bank as 'special agency' of the Organisation of American States.

But the connection is a source of risk as well as strength. The feature which gives the Inter-American bank particular interest, its susceptibility to changes within the Inter-American complex, is also the feature which makes an appraisal of its prospects particularly difficult. Some reasonable guesses, at least, may be made in relation to the Asian and African banks, simply on the basis of internal evidence. No reasonable guess about the Inter-American bank can be made without reference to the whole intercontinental, as distinct from intracontinental, context in which it operates. That context is not merely beyond the scope of this study. It is on a different plane altogether. That this is so should temper any value that one might otherwise attach to such chancy *réclame* as the Inter-American bank has so far attained. For an indication of the kind of assessment which would be more solidly based, one must look, in particular, at the *intra*continental factors which affect the future of the African bank.[2]

2 Historical Background

In the long succession of endeavours leading up to the creation of the Inter-American Development Bank, as in its subsequent evolution, a

1. See p. 173.
2. See Chapter 3, Section 5.

simple and recurring pattern may be discerned. It is a pattern shaped by two interacting sets of relationships—the Latin American countries' relationships with each other, and their collective and individual relationships with the USA. Most, if not all, significant changes in the concept or the subsequent reality of an Inter-American bank can be sufficiently explained in terms of a change in that pattern.

It may be helpful if at the outset we illustrate this thesis, with one particularly striking example—the style and character of the bank's president. It is generally agreed among those who are familiar with the bank that Mr. Felipe Herrera's presidency has been a crucial and highly idiosyncratic factor in the shaping of it. This factor is so conspicuous that it will be discussed at some length below.[1] At this point we would merely pose the question, why it was that the Inter-American bank acquired a president who reflected the political environment of Latin America, rather than one whose experience and reputation were primarily those of a professionally apolitical banker.

In both aspects of its historical context—the internal and external relationships of Latin America—the Inter-American bank differs sharply from its sister institutions. The notion of such an institution was formed long before the now generally accepted model of a 'regional bank' had been devised, and the notion was developed within an evolving pattern of regional institutions and mechanisms. Indeed, the phrase 'sister institutions', which is much used here, is taken by the staff of the bank to refer, not to other international institutions with similar financial functions, but to those institutions which serve complementary political, social, or economic functions, within the framework of the region that it serves.[2] This phenomenon cannot be explained in terms of the Inter-American bank's relatively well established position. First, there is a real and structural difference in the position of the Inter-American bank, which is reflected in its status, already mentioned, as an agency of the Organisation of American States. Secondly, in addition to the formality, some explanation has to be found for the bank's success in resisting contrary pressures. In our examination of the African and Asian banks, it has been shown that the pressures generated after such institutions have been established tend to remove them further and further from other international institutions within the region, and to associate them more and more closely with

1. See pp. 173 ff.
2. The sections in successive annual reports on 'relations with other organisations' may be contrasted in this respect with the equivalent sections of the annual report of the African and Asian banks. The significance of the emphasis on intraregional institutions is not in any way lessened by the fact that Latin America happens to be institutionally more developed than Africa or Asia. On the contrary, in a region with a relatively undeveloped institutional framework, one would expect a regional bank to devote more, rather than less, attention to this aspect of its functions.

similar institutions elsewhere.[1] That the Inter-American bank does not reflect this trend has to be explained in terms of events which took place before its inauguration, a point which has to be made at the outset in order to relate this account of its historical background to the description of its evolution which follows.

The relevance of the relationship between Latin America and the USA must be perceived in the same light. Here the contrast is even more striking, because there appears to be a direct parallel between the Asian[2] and Inter-American[3] banks, at least, in the extent to which their materialisation was dependent on a change of attitude in the Government of the United States. It will readily be seen, however, that the Asian bank was perceived as a potential instrument for the creation of a new (and more limited) relationship. The African bank, too, though its capital structure prevented such a perception at the outset, has certainly devoted much effort to the creation of a new framework for relations between Africa and the developed nations. But the Inter-American bank was itself directly the product and the expression of a relationship which already existed, which had fallen into disrepair, and which now, through this and other instruments, was to be mended. The difference is one which does not necessarily work to the Inter-American bank's advantage. It is none the less crucial.

The role of the United States in the Inter-American bank is subtle and complex. Given the central significance of US initiative and support, it would be reasonable to expect that the product would be a US-dominated institution. The paradox is that the creation of such an institution was consistently perceived by the Latin American nations as a means of strengthening their combined position vis-à-vis the USA, and thus of ameliorating the effects of US paramountcy in their region. The paradox is resolved when one discovers that the events which brought about a change of attitude on the part of the USA were such as to underline the political necessity of conferring upon the Latin American nations at least some part of the status that they were seeking, and therefore of creating the instruments whereby this status could be given some limited reality. Thus it was that an institution could be created which, while reflecting unequivocally the position of the USA as dominant partner, was able to work to fairly well understood, though unwritten, rules concerning the restraints within which that dominance should be exercised.

Before this change of attitude, US opposition to the creation of an Inter-American bank had for some 70 years been an insuperable obstacle. The idea appears to have been first formulated at the First

1. The most obvious of such pressures arises from the preoccupation of such institutions with gaining access to the world's capital markets.
2. See p. 44.
3. See p. 147.

International Conference of American States, held in Washington in 1889-90.[1] At successive conferences thereafter, the same proposal was put forward in various forms, but in every case the US administration refused to contemplate the establishment of an institution which would be in competition with private banks. It should be remembered that this was a period when the Monroe doctrine, enunciated in 1823 as a principle of hostility towards European intervention in the western hemisphere, had matured into a claim to outright hegemony. In 1895, Richard Olney, the US Secretary of State, insisted on his country's right to arbitrate in the dispute between Great Britain and Venezuela over the Venezuela-Guiana boundary, an action which is sometimes taken as marking the beginning of the age of US imperialism. Olney asserted that 'the United States is practically sovereign on this continent, and its fiat is law upon those subjects to which it confines its interposition'. In 1904, President Theodore Roosevelt gave an interpretation of the doctrine, known as the 'Roosevelt Corollary', to the effect that circumstances might 'force the United States, however reluctantly, in flagrant cases of such wrong-doing or impotence, to the exercise of an international police power'. Over the next 20 years, the USA exercised that power with some frequency. The interventions of that period are remembered still, and evoked in the language of current Inter-American relations.

If it was a period of US hegemony, however, it was also a period of increasingly articulate resistance to that hegemony. The first attempt to persuade the USA to renounce the right of intervention was in 1889, at the same conference which saw the first proposal of an Inter-American bank. The conjunction is illuminating. From the outset, the notion of an Inter-American bank was presented in the context of an assertion of Inter-American rights. That it was seen in that light by the USA, as well as by the Latin Americans, is indicated by the fact that the first shift in the US attitude to it did not come until a major change of policy led to some measure of recognition of the Latin American countries' political claims.

With the abandonment of the Roosevelt Corollary in the 1920s, and with the development of President Franklin D. Roosevelt's 'good neighbour' policy in the 1930s, the political environment gradually improved. This improvement, however, was not of itself sufficient to open the way for the establishment of economic institutions. It was essentially a negative trend—a withdrawal from a resented position—rather than the positive creation of a new and more acceptable US role. In the field of economic relations, the trend was reflected in the refusal of the

1. This is the occasion generally held to mark the emergence of the proposal. See, for instance, Henry S. Bloch, 'Regional Development Financing', p. 187. One reason for taking this date is that it also marks the beginning of organised Latin American resistance to the newly re-asserted Monroe doctrine.

US Government to help American investors who lost money in defaulted dollar bonds, or in President Roosevelt's acquiescence in the Mexican Government's nationalisation of the oil industry in 1938. In such cases, as in political relations, the accent was on self-restraint rather than on creative initiatives.

With the outbreak of the Second World War, US interests changed. But the first positive incursion of the US Government into the field of economic relations, the stabilisation of commodity prices to prevent inflation in the prices of wartime supplies, was hardly to Latin America's advantage. In 1940, the USA signed a convention for the establishment of an Inter-American bank, and President Roosevelt gave it his support, but the proposal was still unacceptable to Congress, essentially on the same ground as before.[1]

In the post-war years, US opposition to the proposal was revived and sustained. It was put to the Americans, and rejected by them, in at least four international conferences, the last of which took place in Buenos Aires in 1957, only a year before the crucial change of policy. The reasons for US opposition, however, were now differently presented. The role of government in the provision of development finance had been recognised at the Bretton Woods conference in 1944 and in the subsequent establishment of the IBRD. In bilateral relations, new principles were being developed, first in Marshall aid to Europe and then in aid to southern and eastern Asia under the Mutual Security Act. Competition with private banks could no longer be presented as an insuperable obstacle. The USA argued, therefore, that the proposed institution was now unnecessary, since the need for an international agency was met by the existence of the IBRD[2] and the need for a bilateral financial channel was covered by the US Export-Import Bank.

The result was that to the general resentment of US policy in Latin America were added two more specific and directly relevant resentments—the Latin Americans' growing dislike of the policies of the World Bank, and their sense of grievance over their failure to secure even a modest share of American aid.

Resentment against the World Bank was twofold. In its loan operations, it was felt to be too conservative, especially in its refusal to contemplate loans for expenditure in the social sectors, which were excluded, according to the interpretations then accepted, by the World Bank's charter. In addition, from the mid-1950s onward, there was

1. Bloch, op. cit., p. 188.
2. Mr. Eugene Black, president of the World Bank at the time, is understood to have expressed strong hostility to the proposal to establish an Inter-American bank. His subsequent support for the Asian bank was widely taken as proof that regional banks had attained respectability. (But see p. 45, footnote 2.)

bitter resentment of what started, on the World Bank's part, as a concern for the credit-worthiness of borrowing countries, but which was seen as a sort of censorship of national policies and which subsequently developed into a policy of outright intervention. This policy, which came to be known as 'leverage',[1] evolved almost accidentally as a by-product of the bank's doctrine of credit-worthiness. If the bank thought that a country was following policies which called in question its ability to repay its debts, its practice was to declare a country not credit-worthy and to refrain from further loan negotiations. In the 1950s, such a suspension of activities happened in relations, most conspicuously, with Brazil and Turkey. In time, this negative sanction, the withdrawal of support, gave way to more active pressure in favour of particular policies, which was later to be formalised, largely because of the bank's growing involvement in aid co-ordination, under a variety of labels such as 'leverage', 'self-help criteria', 'performance lending', etc. For the Latin Americans, long independent and long obsessed with the threat of intervention in one form or another, the trend was particularly galling.[2]

As regards the distribution of American bilateral aid, it is hardly necessary here to go into the reasons for the concentration, first, on Europe, and then on Asia. The figures, nevertheless, are striking. In 1957/58, the last year before the US initiative which led to the establishment of the Inter-American bank, new commitments of the International Co-operation Administration were as follows :[3]

	$m
East Asia	675
Near East and South Asia	516
Europe	102
Latin America	88
Africa	82
Total	1,463

Latin America's 6% share of total commitments in 1957/58 was in fact the highest it had attained. Over the period 1948-58, total US commitments were $25,266m, of which Latin America's share was $352m, or 1·4%. For many Latin Americans, this was the perceived reality of the good neighbour policy.

1. The activities of international agencies in respect of overall national economic policies constitute an area of notorious discretion. No thorough empirical study of the World Bank's operations in this field has been published. For an indication of the origins of World Bank policy in this area, see J. White, *Pledged to Development: A Study of International Consortia and the Strategy of Aid,* pp. 146-7 and pp. 171 ff.
2. This trend is discussed more fully below. See pp. 184-6.
3. *US Economic Assistance Programs Administered by the Agency for International Development and Predecessor Agencies, 1967,* p. 7.

These resentments were intensified and brought together by the ending of the boom conditions of the early 1950s. Long-standing political obsessions were now to be translated into specific economic complaints arising from the fall in commodity prices.

The political problems had in fact been solved, at least in structural terms, by the series of events leading up to the signing of the Charter of Bogota, in 1948, which resulted in a reorganisation of the Inter-American system under the title of the Organisation of American States. The adherence of the Latin Americans to this system was enhanced by their earlier failure to secure a voice in the United Nations commensurate with their formal voting power. The OAS thus became the main forum for the expression of their international concerns, and it was a forum in which a collective sense of an exclusive Latin American identity was bound to become more and more clearly defined.

These, then, were the historical trends which conditioned the climate which prevailed in Latin America in May 1958, when Mr. Nixon undertook his vice-presidential tour. To recapitulate, it was a climate of growing consciousness of a Latin American identity, equipped with an institutional framework within which long-standing political suspicion of the USA had been translated into specifically focused economic resentment, not only against the USA, but also against the existing institutions of international economic relations, a resentment which contained within itself, among other features, a demand for a more imaginative, a more political, and above all a more social approach to the challenge of development. The formula for the creation of the Inter-American bank was fully set out months before the first serious discussions began.

The missing factor in this formula was simply US recognition of the current of Latin American opinion. At the beginning of 1958, the view of the State Department was still based on an assumption that a policy of political self-restraint was sufficient to secure the good will of the Latin American countries.[1]

This assumption was destroyed by the violently hostile reception given to Mr. Nixon a few weeks later. All the evidence suggests that the State Department was taken unawares by this reception. The result was a fundamental reappraisal of the US position, which led to an attempt to reformulate the good neighbour policy in more positive and more economic terms, and ultimately, under the next administration, to the creation of the Alliance for Progress.

A few months before Mr. Nixon's visit, the Latin American nations

1. On 5 March 1958, for instance, Mr. Roy R. Rubottom, Assistant Secretary of State for Inter-American Affairs, told the Senate Committee on Foreign Relations that 'widespread discontent' with US policies in Latin America did not exist.

had made what was perhaps their most determined effort so far to initiate the preparatory steps towards the setting up of an Inter-American bank. In August and September 1957, the Economic Conference of the Organisation of American States, meeting in Buenos Aires, had recommended that the Inter-American Economic and Social Council should set up a special committee to study the possibilities. The US position then had been the same as on previous occasions. On 12 August 1958, however, the US representative announced, at a special session of the council, that his government was now ready to consider the establishment of such a bank. A month later, at an informal meeting of American foreign ministers in Washington, the recommendation made a year previously in Buenos Aires was given more concrete shape, in the form of a recommendation that the council should set up an inter-governmental committee to negotiate and draft a charter. This committee, on which all nations of the Inter-American system were represented, met in Washington from 9 January to 8 April 1959, at the end of which an agreement was signed. The necessary instruments of ratification having been deposited, the agreement came into effect on 30 December of the same year, and six weeks later the Board of Governors held its first meeting. From the day of the first announcement of US support, it had taken only eight months to reach agreement, and a total of 17 months to bring the institution into being.

The most striking feature of these events was the speed with which they happened. Of greater significance than the formal discussions, however, was the political climate within which they were taking place, in the aftermath of Mr. Nixon's visit.

That climate was implicitly characterised by Juscelino Kubitschek of Brazil, in his promotion of the concept of 'Operation Pan America'. This concept was the creation of Augusto Frederico Schmidt, a Brazilian poet and politician,[1] who remained the driving force behind it. On 8 August 1958, the Brazilian Government sent detailed proposals to the other American states, in which the main emphasis was on the need to make more forceful use of the machinery of the Inter-American system. In September, at the meeting of foreign ministers already referred to, it was agreed that the Organisation of American States should set up a special committee. This committee—the Special Committee to Study the Formulation of New Measures for Economic Co-operation—met three times, in late 1958, early 1959, and September 1960. The third meeting took place in Bogota. At the end of

1. The poetic commentary is a recurring feature of the evolution of Inter-American economic relations. At the height of the self-assertion period which followed the first unhappy conference of 1889-90, a particularly influential work was *Ariel* (published in 1900) by José Enrique Rodó, which propagated a rather romantic view (known as *arielismo*) of an innate Latin American quality, to be contrasted favourably with the more materialist qualities of North American culture.

it, the participants drew up an 'Act of Bogota', proposing 'measures for social improvement and economic development within the framework of Operation Pan America'.

The Act of Bogota was accepted by the Council of the OAS on 11 October, just ten days after the Inter-American bank had officially begun operations. In some respects, the document seemed to be ahead of its time, most strikingly in its emphasis on social conditions. It recommended a series of measures to improve rural living conditions and land use, housing and community facilities, educational systems and training facilities, and public health; and it urged a more overtly redistributive use of taxation systems. In the economic field, the act was primarily concerned with the mobilisation of external resources, a concern which was also expressed in its recommendations for the strengthening of the Inter-American consultative framework.

The Act of Bogota was essentially a political manifesto, a preamble, not a full economic and social programme. It contained neither a statistical basis nor precise quantitative targets. But it set out in more precise terms than are usually to be found in the preambles to economic and social programmes the scale of values by which the attainments of such a programme were to be measured.

In the Inter-American bank, it was taken as a kind of political charter, and as such it served a purpose which its own articles of agreement would hardly have fulfilled.[1] The nature of the Inter-American bank's perception of the Act of Bogota is well conveyed by the following extract from a paper by a senior member of the bank's staff, in which he is reflecting on the apparent failure of Operation Pan America to maintain momentum.[2]

> 'This failure is, perhaps, because in its original Brazilian presentation Operation Pan America was tied in with the establishment of Latin American goals in terms of per capita income and rates of economic growth, which created for the United States the problem that acceptance would commit it to massive expenditures impossible either to begin or to maintain. Thus the nascent fire of Operation Pan America has hardly survived a barrage of financial arguments, opposing economic concepts, and conference deadlocks. And in the

1. In this respect, too, it may be contrasted with the African and Asian banks (and incidentally the World Bank) which have to draw from the sketchy indications of their introductory articles the guidance which the Inter-American bank draws more fully from the Act of Bogota.

2. T. Graydon Upton, ' "Operation Pan America"—The Hidden Catalyst?', a paper before the Conference for Corporation Executives, School of Advanced International Studies (1961), pp. 4-5 (italics added). In general, for evidence of the bank's attitudes, the material used here consists of interviews with and papers by the bank's senior staff, rather than the more obvious and more readily accessible source of the president's speeches, since in the latter case there is a danger of failing to distinguish between the personality of the institution and the very marked personality of the president himself.

process its power, within whatever financial framework may be possible, for awakening the spirit of the Americas, which was an essential part of Schmidt's concept, has been forgotten. Nor indeed could Operation Pan America be effectively launched without the utilization of imaginative planning, effective techniques of arousing human enthusiasm, and methods to ensure its acceptance on a broad scale, all of which require U.S. support and understanding. In short, the necessary catalyst of the dramatic and emotional factor has been overlooked.

'Yet Operation Pan America has the vision and the potential symbolism of *a sweeping hemispheric movement*. It has a spiritual (if also materialistic) origin, and it has a broad scope. If properly moved, it is capable of building great enthusiasms and intense self-dedication. It can exercise a cohesive and unifying force in Latin America which in turn would create the human and spiritual capital of real progress. It is capable of drawing to it *powerful Latin American leadership*. And finally, the fortuitous timing factor inherent in the taking of office of new Presidents in Brazil—the great country where Operation Pan America was conceived, and in the United States, whose acceptance and support is prerequisite for success, and which itself is dedicated to establishing vital new frontiers, is particularly fortunate.'

The Act of Bogota contained one crucial section which lent reality to what might otherwise have been regarded as mere declarations of hope. Two months before the Bogota meeting, President Eisenhower, in his 'Declaration of Newport', had expressed a desire to embark on a co-operative programme of economic and social development with the Latin American countries. Soon after that declaration, the US Congress had authorised a $500m fund for the purpose. At Bogota, the US representative proposed that this fund should be administered mainly by the Inter-American bank. The Act of Bogota accordingly included a clause welcoming the US proposal, and recording an understanding that the fund would be available on 'flexible' terms and conditions, 'to support the efforts of the Latin American countries that are prepared to initiate or expand effective institutional improvements and to adopt measures to employ efficiently their own resources with a view to achieving greater social progress and more balanced economic growth'.[1] Under President John F. Kennedy, this understanding subsequently gave rise to the establishment, within the framework of the Alliance for Progress, of the Social Progress Trust Fund, which until 1965 was the bank's main source of concessionary finance. The Alliance for Progress itself, of course, was also to have an impact on the environment within which the bank's operations were to evolve. It should be

1. Act of Bogota, Section II, para. 2, and Social Progress Trust Fund Agreement, Section 1.03.

clear, however, that the Alliance for Progress, in so far as it affected the operations of financial institutions, was a continuation of a trend in US policy which had begun under President Eisenhower, a trend which was overwhelmingly the most significant single factor in the process of establishing the Inter-American bank.

Although it was US policy that precipitated the establishment of the bank, US policy was *not* the most significant factor in the shaping of it. For that, one must go further back into the nature of the Inter-American system—a system which may be characterised as a framework for the containment of anti-Americanism within the bounds of seemliness. Given that framework, everything was predictable.

3 Structure

The structure of the Inter-American bank, as reflected in its articles of agreement, is broadly similar to that of the African and Asian banks. This is only to be expected, in view of the fact that the articles of the last two institutions were to some extent modelled on those of the first. Attention has to be drawn to these structural similarities again here, primarily in order to re-emphasise the central point that the Inter-American bank's special characteristics cannot be explained in terms of the formal provisions of its charter. The Inter-American bank offers no universal formula. Its special characteristics are the product of the particular circumstances of its origin and of its continuing environment.

Those particular circumstances, however, are to some extent reflected, if not in the broad structure set out in its articles, at least in certain significant points of detail, and in the relation of each standardised part of the structure to the whole. Generously interpreted, the articles offer, not a portrait of the bank, but an indication of the directions it was likely to take and has indeed taken. This in itself is important. In characterising the African and Asian banks, we presented their articles as constituting a framework of operation, and attention was drawn to certain features of those articles which were themselves likely to take on increasing significance as conditioning factors—e.g. the distribution of membership and voting rights. The articles of the Inter-American bank have from its inception been endowed with a crucially different status. They have constituted, and continue to constitute, little more than a legitimisation of the bank's existence. Seen at the outset as a point of departure, they came to represent an institutional chart rather than a charter. In the preceding section, the point was made that the articles did not have to serve the declaratory political function that accrued to the articles of the African and Asian banks. One result of their not having to fulfil this central political function was that they never in themselves gave rise to inhibiting political constraints.

As might be deduced from the foregoing, the feature which emerges most clearly from an interpretative reading of the bank's articles is the bank's unequivocal character as an instrument of Latin American regional politics. Paradoxically, this feature does not derive from the structure of the bank's Latin American membership—if it did, then the African political status of the African bank would surely be equally assured—but from the defined position of the USA. That position reflects exactly the political realities of Latin America's developmental patterns. It does so in quantitative as well as qualitative terms. Indeed, if we were seeking some way of measuring the weight of the USA in the Latin American framework of development, the precisely ascertainable weight of the USA in the Inter-American bank might well be taken as a key indicator.

That weight might be measured in various ways, of which the simplest is in terms of the volume of resources. Here again, a significant feature of the bank that emerges from an examination of its articles and of subsequent changes in its structure is the simple fact of its being exceptionally well endowed. In relative terms, it began with some four or five times the resources of the African and Asian banks (more, if one applies the concepts of 'effective resources' and the 'quality' of resources), and with more solid and subsequently fulfilled assurances that those resources would be increased.

These resources, as is usual in such institutions, are divided into separate funds, available on differing terms and for differing purposes. What distinguishes the Inter-American bank in this respect is that the basis for each of these funds was laid when the bank came into being (though one, the Social Progress Trust Fund, was not put under its physical control until nine months after it had begun operations), and that all of these funds are administered under a single juridical personality. The first of these features distinguishes it from the other regional banks and from the World Bank group. The second distinguishes it from the World Bank group, but probably not from the other regional banks, whose hypothetical arrangements for the administration of soft funds had yet to be finally settled at the time of writing.

These three features of the bank's resource structure—size, diversity, integration—reinforce each other. In the speeches made on behalf of other international development finance institutions, one finds repeated references to conventional lending as the hard core of these institutions' activities. Such references should always be taken as a symptom of weakness—either short-term financial weakness, as in the case of the African and Asian banks, or long-term political weakness, as in the case of the World Bank—indicating a situation in which the constraints of the international financial climate outweigh any strength that might be derived from an effective and specific political demand for the services of the particular institution in question. In the speeches made on behalf of the Inter-American bank, such references are hard to find, and always subsidiary.

Membership, subscriptions, and voting rights

Membership of the Inter-American bank is open to members of the Organisation of American States.[1] Thus the USA, as a member of the Inter-American system, is eligible for membership, and is indeed the principal subscriber. But Canada, though it has given financial support to the bank, is not eligible for membership.

The agreement establishing the bank was signed by all the members of the OAS—i.e., the 20 Latin American republics and the USA. Of these, all but Cuba subsequently joined. The fact that Cuba did not join can be explained formally in terms of that country's general withdrawal from the Inter-American system. But it should also be remembered that the bank was from the outset seen by the USA as one of a range of instruments in its efforts to counter the example of the Cuban revolution.

Trinidad and Tobago joined the bank in 1967, after being admitted to the OAS, and Barbados and Jamaica joined in 1969, and it appears that any other country admitted to the OAS in the future would have little difficulty in becoming a member of the Inter-American bank also.

Subscriptions to the bank were fixed largely by reference to the proposed US contribution. In the course of the preparatory negotiations, the US Government indicated that it had in mind a figure of $400m as its total combined contribution to the initial authorised capital stock of the bank and the initial resources of the Fund for Special Operations.[2] It appears to have been accepted without question that such a contribution would entitle the USA to a substantial role in the governance of the bank (and, of course, in its management). At the same time, it was plainly undesirable that the USA should have outright control. The authorised capital was therefore set at $850m, divided into 85,000 shares with a par value of $10,000 each, of which the USA was to subscribe $350m, or 41% of the total.[3] The balance of $500m was allocated among the proposed Latin American members. The subscriptions of individual members were determined on the basis of their

1. Article II. 2.b.
2. The bank's own soft-loan fund, to be distinguished from the wholly US-subscribed Social Progress Trust Fund, which is administered by the bank. See p. 160.
3. Since Cuba did not join the bank, the amount allotted to it ($36,840,000) was not subscribed. The US share of actual initial subscriptions was therefore 43%.

proportionate quotas in the IMF, but with an upper limit of $103,140,000 (Argentina, Brazil) and a lower limit of $4,140,000 (Bolivia, Costa Rica, El Salvador, Haiti, Honduras, Nicaragua, Panama, Paraguay).[1]

The subscriptions of all members except the USA were divided equally into paid-in shares and callable shares. Of the US subscription of $350m, $150m was to be paid in and $200m callable. Half of each member's paid-in subscription was payable in gold or dollars and half in the member's own currency. Thus, in terms of dollar payments, the paid-in subscriptions of the Latin American countries were effectively halved, while the whole of the US paid-in subscription remained available in convertible currency.[2] At the same time, the additional $50m of callable capital in the US subscription enhanced the bank's borrowing power in the US capital market, where the level of US backing was bound to be the most important factor affecting the saleability of the bank's bonds.[3]

The distribution of voting power in the Inter-American bank is very close to the distribution of subscriptions. There is some slight weighting in favour of the smaller members, but it is less than in the African and Asian banks or in the IBRD. Each member has a basic allocation of 135 votes, plus one vote for each of its shares in the capital stock.[4] Under the original provisions, therefore, there would have been 87,835 votes, of which only 2,835, or 3·2%, were distributed equally between the members, the remainder being distributed in accordance with shareholdings. Any redistribution of voting power that this might have achieved was eroded almost completely in 1963 and 1968, when successive increases in the subscribed capital reduced the number of votes distributed on a flat rate to 1·2% of the total.

While it is true that the voting system does little to protect the smaller members, however, it has to be added that this deficiency, in the particular circumstances of the Inter-American bank, is not of great practical significance. First, it was inevitable that the USA, as the sole developed member of the bank, should have a dominant but not controlling voice, and no amount of tinkering with percentages would have

1. Articles of Agreement, Annex A.
2. Under Article V.1, only that portion of the subscription which is payable in gold or dollars is available without restriction. Given the pattern of Latin American procurement, however, the fact that all of the US paid-in subscription is paid in dollars means that it is in fact freely convertible, since the half of it which the USA may in principle restrict to US procurement under Article V.1.c, is unlikely to be greater than the amount that would in any case be used for US procurement under open competition. In 1967, however, a new procurement policy was introduced, the principal effect of which was to limit the convertibility of funds raised in the USA, whether subscribed or borrowed (see p. 180).
3. The same consideration affected the subsequent decision to increase the bank's callable capital (see p. 158).
4. Article VIII. 4.a.

altered this fact. Secondly, the potentially more disruptive disparity in the voting powers of individual Latin American members was largely offset by the political characteristics of the institution, which ensured a certain tenderness towards the requirements of the smaller countries, a disposition which subsequently emerged in the distribution of the bank's loans.[1] Thirdly, the interests of the smaller members are protected, to the extent to which they need protecting, by the system for the election of directors rather than by the formal and relatively inoperative distribution of voting power. This system ensures that at least two directorships are available for the representation of those smaller members which have no natural allies among the larger Latin American powers.[2] Fourthly, although the USA has a formal blocking vote in the Fund for Special Operations, where a two-thirds majority is required,[3] and needs only the support of one other director in decisions concerning the bank's ordinary resources, in which a simple majority of the voting power of member countries suffices,[4] this blocking power is seldom (so far as can be ascertained, never) used. Like the Asian bank, the Inter-American bank goes to some lengths to avoid formal confrontations between the sources and the recipients of its funds, usually by reaching a compromise through informal consultations before a meeting of the Board of Executive Directors. That does not mean that the Inter-American bank is free of US influence or pressure. It merely means that the bank and its Latin American members have come to terms with the reality of US financial power, and have done so in a manner which ameliorates some of the worst effects to which the formal exercise of that power might give rise. To identify more precisely the manner in which the US presence manifests itself within the bank would require a detailed and, given the nature of the relevant documents, very difficult analysis of numerous decisions. On the outward evidence of the bank's operations, however, it appears that the USA does allow the bank considerable latitude in practice, on the understanding that it continues to operate within the broad US conception of the Inter-American system. It is known, for instance, that the USA has tried unsuccessfully to persuade the Inter-American bank to align itself more explicitly with the other Washington agencies in seeking fiscal and monetary policy changes in some of its member countries. But the pressure on the bank in this respect has been relatively light. Indeed, some officials within the US administration express the view that it is necessary to keep at least one financial agency away from the IMF-IBRD-AID line-up, in order to provide a political safety valve. To arrive at an assessment of the extent to which this qualified

1. See Table 10.
2. See p. 164.
3. Article IV.9.b.
4. Article VIII.4.c.iii.

freedom of action enables the bank to contribute to Latin American development would require a formulated view concerning Latin America's developmental needs, an area of controversy into which it is not here proposed that we should enter. Within the framework of this study, our main concern is with the institution's evolutionary potential. In that respect, what is clear is that the bank is so placed, and expectations of it are so formulated, that it has a better chance of earning its members' *approval* than does either of its sister institutions. In the case of the Asian bank, and even more clearly in the case of the African bank, it has been shown that such approval is a condition rather than a result of a creative loan policy. In the case of the Inter-American bank, the condition is fulfilled.

Table 7 Shares and voting power of members of the Inter-American Development Bank, 31 December 1968

Member country	$,000	Percentage of total shares	Percentage of total voting power
Argentina	285,150	12·62	12·52
Bolivia	22,890	1·01	1·06
Brazil	285,150	12·62	12·52
Chile	78,300	3·47	3·48
Colombia	78,235	3·46	3·48
Costa Rica	11,445	0·51	0·56
Dominican Republic	15,270	0·68	0·73
Ecuador	15,270	0·68	0·73
El Salvador	11,445	0·51	0·56
Guatemala	15,270	0·68	0·73
Haiti	11,445	0·51	0·56
Honduras	11,445	0·51	0·56
Mexico	183,300	8·11	8·07
Nicaragua	11,445	0·51	0·56
Panama	11,445	0·51	0·56
Paraguay	11,445	0·51	0·56
Peru	38,210	1·69	1·72
Trinidad and Tobago	11,445	0·51	0·56
USA	967,640	42·82	42·35
Uruguay	30,575	1·35	1·40
Venezuela	152,775	6·76	6·73
Total	2,259,595	100	100

Source: Inter-American Development Bank, Annual Report for 1968, Appendix 1-5.

Aims and functions

The statement of the Inter-American bank's purpose which is given in its articles of agreement is so brief as to appear perfunctory. According to Article I.1, its purpose is 'to contribute to the acceleration of the process of economic development of the member countries, individually and collectively'.

When compared with the equivalent articles of the African and Asian banks, this statement may be considered deficient in two respects. First, it offers no hint of how the process of economic development is to be defined, i.e. of the values by which the bank's performance is to be assessed. Secondly, in contrast with the Asian bank, it makes no distinction between—to put it crudely—the aid-giving and aid-receiving members, though certainly it was understood that the USA would not be a borrower from the bank. On the other hand, the concluding phrase of the statement does specify a collective approach to the needs of the region, and this formula, as has been shown, was subsequently adopted as an established principle by other regional banks.

To set this statement of purpose in its proper perspective, it is necessary to remember that it was the first of its kind. If one compares it with the equivalent article of the IBRD, one finds that it was more original than it now appears. Article I of the articles of the IBRD states as 'purposes' what in the articles of the three regional banks are uniformly and more accurately given as 'functions'. The articles of the IBRD, in fact, give no statement of purpose, in the proper sense, whatsoever.

Once again, we find that the Inter-American bank is precise where precision is needed, while retaining sufficient flexibility to permit creative experiment. A proper and fine distinction is drawn in the articles between the bank's purpose, which essentially implies a subjective statement of values, and the bank's functions, the methods and instruments by which that purpose is to be achieved. At the same time, the necessarily political and value-based nature of the bank's purpose is recognised in the refusal to formalise it in an article subject to legal interpretation, leaving the bank free to respond to the political environment within which it must evolve. It may be doubted whether the authors of the bank's articles were so clearly aware of the logical status of the statements that they were making. That they nevertheless got it right must be taken as further evidence of the congenial quality of the bank's historical context.

In this respect, reference has already been made to the significance of the Act of Bogota. It is appropriate here to recall, also, the rather more declaratory statement of purpose given in Section 1.03 of the Social Progress Trust Fund Agreement between the bank and the US Government.[1] That agreement recognised, in its preamble,

> 'that the preservation and strengthening of free and democratic institutions in the American Republics require the acceleration of social and economic progress in Latin America adequate to meet the legitimate aspirations of the peoples of the Americas for a better life and to provide them the fullest opportunity to improve their status and . . . that the magnitude of the problems involved will require maximum self-help efforts on the part of the American Republics and, in many cases, the improvement of existing institutions and practices, particularly in the fields of ownership and use of land, education and training, health and housing, and taxation and other aspects of the mobilization of domestic resources'.

A certain scepticism concerning the operational significance of such proclamations should not be allowed to obscure the importance of their stylistic role. The Social Progress Trust Fund Agreement displayed the

1. See p. 149.

bank's style far more effectively than would have been possible within the scope of its own articles.

The stated functions of the bank show a rather more conventional bias in favour of the private sector. Its functions are given as :[1]

(i) to promote the investment of public and private capital for development purposes;

(ii) to use the funds at its disposal for the financing of development, especially through such operations as will contribute most effectively to growth;

(iii) to encourage and to supplement private investment;

(iv) to help member countries to make better use of their own resources, and in particular to help in making their economies more complementary and in fostering the growth of foreign trade;

(v) to provide technical assistance.

A careful analysis of these functions, especially in comparison with the equivalent articles of the African and Asian banks, will once again reveal certain useful imprecisions and choices left open. The one thing which is clearly stated, both as a purpose and as a function, is the realisation and putting into practice of a sense of regional identity. It could be argued, indeed, that for the Inter-American bank economic development is only an intermediate aim, its implicitly but quite clearly stated ultimate objective being a more effective articulation of Latin American interests within the Inter-American system.[2]

Resources

The Bank's ordinary capital resources are defined as the subscribed amount of the authorised capital stock, funds raised by borrowings, funds received in repayment, and income derived from loans and guarantees.[3] In addition, it has three sources of funds, most of which are available for giving or lending on softer terms than its ordinary capital resources. First, it has the Fund for Special Operations (FSO), integrated into its own financial structure, which is intended to serve the bank's general purposes. Secondly, on behalf of the USA, it administers the Social Progress Trust Fund (SPTF), the uses of which are defined primarily in terms of social criteria. Thirdly, it has mobilised resources of various kinds from non-member developed countries, usually to finance purchases from the countries in question.

Table 8 shows the growth of the bank's authorised resources in the years 1961-68. It will be seen that ordinary capital resources initially made up the larger part of the bank's authorised funds, that in 1965

1. Article I.2.
2. In this, it certainly reflects the aspirations of its Latin American members. Whether it is a suitable instrument for such a purpose, either in theoretical or in practical terms, is another question. See p. 187, and G. Lagos, *International Stratification and Underdeveloped Countries,* pp. 55-61.
3. Article II.5.

Table 8 The growth of authorised resources of the Inter-American Development Bank, 1961-68

$m

	1961	1962	1963	1964	1965	1966	1967	1968
Ordinary Resources								
Paid-in	400·0	400·0	400·0	475·0	475·0	475·0	475·0	475·0
Callable	450·0	450·0	450·0	1,675·0	1,675·0	1,675·0	1,675·0	2,675·0
	850·0	850·0	850·0	2,150·0	2,150·0	2,150·0	2,150·0	3,150·0
Fund for Special Operations	146·3	146·3	146·3	219·5	1,119·5	1,119·5	2,321·4	2,321·4
Social Progress Trust Fund	394·0	394·0	394·0	525·0	525·0	525·0	525·0	525·0
Other Resources	......	......	......	16·0	25·2	51·0	60·2	60·2
Total	1,390·3	1,390·3	1,390·3	2,910·5	3,819·7	3,845·0	5,056·6	6,056·6

Source: Abstract of statistics supplied by the IADB.

the ratio was reversed as a result of an increase in the FSO, and that by the end of 1968 the bank's cumulative authorised funds consisted of ordinary capital resources and special funds in roughly equal proportions. In practice, however, the bank's ordinary capital resources are subject to qualifications and restrictions which limit the amount of effective resources in this category to less than half of the amount of authorised resources. In other words, special funds for giving or lending on soft terms have made up the larger part of the bank's effective resources ever since it was established. Up to the end of 1968, new commitments from these sources exceeded commitments from the bank's ordinary capital resources in all years except two—the exceptions being 1963 and 1964, after which the resources of the FSO were greatly enlarged.

It will be recalled that the bank was established with an authorised capital stock of $850m, of which, as a result of Cuba's withdrawal, $36,840,000 was not subscribed. Of the subscribed capital, amounting to $813,160,000, rather less than half, i.e. $381,580,000, was to be paid in; but of this portion only $265,790,000, being the whole of the US paid-in subscription and 50% of the remaining paid-in subscriptions, was payable in gold or dollars.[1] The callable portion of the subscribed capital, amounting to $431,580,000, was in principle available to guarantee the bank's borrowings. From the outset, however, there was an understanding, which was subsequently formalised, that the bank would not allow outstanding borrowings to exceed the US portion of the callable capital, i.e. $200m. Of the bank's initial authorised capital of $850m, therefore, only $465,790,000 was in the form of effective resources.

The bank may increase its authorised capital stock if approved by a two-thirds majority of the members representing not less than three-fourths of the total voting power,[2] a provision which gives the USA, as one would expect, a blocking vote. By the end of 1962, the bank had issued bonds equal to roughly half of the US callable capital. In April 1963, the Board of Governors approved an increase of $1,000m in the callable capital, to be subscribed in 1964 and 1965, to facilitate an

1. See p. 153.
2. Article II.2.e.

increased rate of borrowing. (The US portion of this was $411,760,000.) The governors also approved an increase of $300m in the authorised capital stock, to provide for the admission of new members. In July 1967 Trinidad and Tobago became a member with a subscription of $9,010,000, of which, under the classification used here, $1,035,000 constituted effective resources.

By the end of 1966, the balance available for ordinary capital operations had dwindled to $80,300,000, while outstanding or intended borrowings had risen to nearly $450m, or 73% of the US callable capital. In June 1968 the governors approved a further increase of $1,000m in the callable capital, to be subscribed in 1968 and 1970, of which the US share was again $411,760,000. As a result of these increases, the effective portion of the bank's ordinary capital resources had risen to rather more than $1,290m, or a little over one-third of the bank's total authorised capital.

A feature of the bank's borrowings has been their wide geographical spread. The first bond issue was made in 1963, not in the USA, but in Italy. Other countries which have been major sources for the bank's borrowings are Germany, Japan, and Switzerland. There are two reasons for this diversity. First, the bank has had to take account of the US balance of payments problem and the consequent restriction of the US capital market. Secondly, the bank has wanted on its own account to mobilise European resources. This in turn must be seen as only one aspect of the bank's persistent attempts to lessen its dependence on the good will of the USA, a concern which is examined in greater detail below.[1]

By the end of 1968, the bank had arranged to borrow a cumulative total of $647,200,000 in the world's capital markets. Of this, $63m was in the form of short-term bond issues to central banks or other governmental agencies in Latin America. The remainder was raised in the following countries:[2]

	$m
USA	405·0
Italy	48·0
Germany	40·0
Switzerland	25·1
Japan	20·0
Spain	12·5
Netherlands	8·3
United Kingdom	7·2
Belgium	6·0
Austria	6·0
Israel	5·0
Finland	1·1

1. See Sections 4 and 5 of this chapter.
2. Annual Report for 1968, p. 18.

Most of these borrowings were in the form of bonds redeemable in 15-25 years, carrying rates of interest varying from a minimum of $4\frac{1}{4}\%$ on a 1962 issue in the USA to 7% on Belgian and Dutch issues in 1967 and 1968.

In addition to these borrowings, the bank had sold participations in its loans amounting to a cumulative total, over the years 1962-68, of $46,244,980. The purchasers included 67 commercial banks and other private financial institutions in the USA, Canada, Europe, and Japan. Rather surprisingly, the scale of participations did not increase with the rate of lending. The bank sold participations amounting to nearly $8m in its first two years of operations, and more than $7m in 1963.

The Fund for Special Operations was established with relatively small initial resources, amounting to $150m, or 15% of the total authorised resources available to the bank. It was envisaged as a kind of special reserve for soft loans 'appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects'.[1] A remarkable feature of the terms of loans from the fund's resources was that they were repayable partly or wholly in the borrower's own currency.[2] Apart from that, the principles for the use of the fund were the same as those governing the use of the bank's ordinary capital resources. It should thus be distinguished from the Social Progress Trust Fund, which was established with its own separate purposes, and should be seen as only a minor element in the structure of the bank as originally conceived.

The structure of the fund, however, had three important features which were subsequently to prove the determining factors in the development of the bank's resources. First, the dependence of the bank on US financial support was more explicitly recognised in the fund's scale of subscriptions than in the ordinary capital. Two-thirds of the resources, or $100m, were provided by the USA; and since 50% of each subscription was payable in the member's currency this meant that the USA provided 80% of the fund's dollar resources.[3] Secondly, the fund was identified in the articles as a distinct entity, whereas the equivalent articles of the African and Asian banks merely specify that a percentage of their ordinary resources may be set aside for similar purposes. Finally, this distinct entity was incorporated into the structure of the bank itself, under a system of control broadly similar to that of the bank's ordinary operations.

These features made the fund the natural base on which to build as the need for a greater volume of resources on concessionary terms

1. Article IV.1.
2. Article IV.4.b.
3. Article IV.3 and Annex B.

became apparent. In 1963, alongside the increase in the callable capital already described, the Board of Governors approved a 50% increase in the resources of the fund. At the same time, the Board of Governors asked the executive directors to initiate a study of the fund's need for another increase in resources. Significantly, this request was set in the context of the Alliance for Progress, which was also the framework within which the bank administered the SPTF.[1]

In 1964, the Board of Governors recommended an increase of $900m in the fund's resources. The US share of the increase was to be $750m, or 83% of the total, and the whole amount was to be payable in the members' own currencies. This very large increase, the dollar portion of which was to be funded by the USA, was designed to enable the FSO to absorb the functions previously assigned to the SPTF. It was understood that the SPTF would receive no further contributions.

After some preliminary hearings, the proposal was presented to the US Congress in the President's foreign aid message in January 1965. In less than two months, the necessary legislation had been passed by both houses.

This remarkable dispatch is worth closer examinaton. The report of the Senate Committee on Foreign Relations stated (p. 4):

> 'The merger of functions of the FSO and SPTF would end the rather artificial distinction between economic and social development in Latin America which now is maintained to some degree in financial operations, if not in the field. Secondly, the Bank's multilateral character would no longer be mitigated, nor would the sense of participation by the Latin American countries be diluted, because of the past need to decide upon the use of funds supplied by only one member. In the third place, there has been some overlapping between the activities of the two funds, and some confusion as a consequence. Finally, the proposals would mark a transition from an experimental period in which emphasis and funds for social development have been supplied on a sporadic basis which has not aided the process of creating well-formulated overall development plans.'

The report also favoured the proposal on the ground (p. 5) that it 'would give assurance of a steady rate of lending permitting orderly programming and efficient processing of loan applications'. The report of the House of Representatives Banking and Currency Committee was perhaps even more remarkable. One of its main concerns was to ensure that the absorption of the functions previously allotted to the SPTF would not result in the replacement of the social principles of the SPTF agreement by more conventional banking criteria. It satisfied itself (p. 5) that 'the proposed merger . . . will not mean that the attention of either the United States or the Latin Americans is going

1. Annual Report for 1963, p. 55.

to shift from housing, water supply, education and agriculture. We expect these will remain priority areas of development programming.' The attitudes expressed in such statements were clearly derived from general approval of the bank's operations, an approval which Congress has accorded to few other aid operations in recent years.

In view of the extent of Congressional hostility to the aid programme as a whole at the time when these and subsequent debates were taking place, and of the prevalent insistence on the need for stricter financial criteria and a more rigorous subjection of aid to the US national interest, it is also interesting to note the number of restrictive amendments which Congress *rejected*. These included a token reduction in the amount to be authorised, a requirement that the President must conclude that contributions were in the US national interest before payment of each instalment, a prohibition on further bond issues in the USA while the proposed authorisation remained in effect, and a requirement that 50% of loans from the US contribution should be repayable in dollars.

The approved increase in the fund's resources was payable in three equal annual instalments, the last of which was due at the end of 1966. In April 1967, the Board of Governors approved a further and yet greater increase of $1,200m, of which the US share was to be $900m, or 75%. This time, Congressional approval was granted even more swiftly, and the increase entered into effect in December of the same year. The total approved resources of the fund thus reached $2,321,436,000, a fifteen-fold increase in the space of eight years.

The third of the bank's main sources of finance, the Social Progress Trust Fund, is now largely of historical interest. Its continuing significance lies in the extent to which the absorption of its functions into the FSO, and hence into the bank itself, has affected the bank's operational policy. It has not been wound up, but its remaining funds consist exclusively of repayments of past loans, usually in the recipient's own currency. In addition, the bank continues to publish the annual survey of socio-economic progress in Latin America required of it under Section 5.04 of the original agreement.

The SPTF was established in June 1961, under an agreement between the bank and the US Government. It was financed by a single US contribution of $394m. This sum was made available from a fund of $500m established by the USA in support of the Alliance for Progress, thus fulfilling a promise which had originally been made in the discussions leading up to the Act of Bogota.

The resources of the fund were to be used in four priority sectors which had been identified in the Act of Bogota. These were land settlement and improved land use, housing for low-income groups, community water supply and sanitation, and advanced education and training.[1] The resources were also to be used for technical assistance in these four fields, and for help in the mobilisation of domestic financial resources and the strengthening of financial institutions.

By the end of 1963, the SPTF's resources were nearly exhausted. The USA therefore contributed a further \$131m, bringing the fund's cumulative resources to a total of \$525m. A few weeks later, the USA agreed to the second increase in the resources of the FSO, on the understanding that no further contributions to the SPTF would be made. By the end of 1965, the bank had committed a total of \$501m from the SPTF, of which 17·8% was for agriculture, 43·5% for low-income housing, 32·3% for water and sewerage, and 6·4% for advanced education and training.[2]

In addition to its ordinary resources and its two main special funds, the bank has had some success in attracting funds from non-member developed countries which it administers on their behalf. By the end of 1968, the following sums had been raised in this manner:[3]

		\$m
Funds in administration		
Canada	46·3	
Germany	8·2	
Sweden	5·0	
UK	9·9	
		69·4
Parallel financing arrangements		
Canada	13·9	
Netherlands	25·0	
		38·9
Loan participation agreements and other arrangements		
Finland	10·0	
Spain	7·5	
Other countries	5·3	
		22·8
Total		131·1

Such arrangements resemble bilateral aid in that the countries providing the funds usually retain a controlling voice in their use. It is clear from numerous references in the president's speeches and repeated resolutions of the Board of Governors[4] that this is a form of

1. SPTF Agreement, Section 1.04.
2. SPTF annual report for 1967, p. ix.
3. Annual Report for 1968, p. 133.
4. Resolutions AG-10/64, AG-5/66, and AG-7/67.

resource mobilisation which the management is anxious to develop, if only to reinforce the bank's European links. For the ordinary loan officer, however, the varied and complex conditions to which they are subject render them difficult to use. Utilisation was at first rather slow, but it was speeded up in 1967 by the appointment of an officer to concern himself more or less full-time with ways of fitting the jigsaw together.

Of the various arrangements which the bank has made, the most flexible appear to be the participation arrangements with Spain and Finland, under which these countries agree to buy participations in the bank's existing portfolio equivalent in value to the goods and services procured from them as a result of the bank's operations. The loans in which participations are bought are not necessarily the ones from which the procurement was effected. The bank is thus freed of some of the administrative complexity which arises from procurement tying.

Organisation and management

The highest authority of the bank is the Board of Governors, on which each member is represented by a governor and an alternate governor.[1] It normally meets once a year.

The conduct of operations is under the control of the Board of Executive Directors. There are seven executive directors, of whom one is appointed by the USA and the others are elected by the remaining members.[2] In contrast to the normal provisions designed to ensure approximate parity of voting powers on such boards, the executive directors of the Inter-American bank are elected in accordance with a procedure designed to ensure that two of them represent smaller members exclusively.[3] To begin with, as many ballots are taken as are necessary to give each of four candidates a number of votes equivalent to the combined voting power of the largest and the smallest Latin American members. The two largest Latin American members, Argentina and Brazil, each have 12·52% of the total votes. The smallest subscribers, of which there were eight at the end of 1968, each have 0·56% of the total votes. The minimum required for election of each of the first four successful candidates, therefore, is 13·08% of the total voting power, or 22·7% of the total voting power of the Latin American members. Even if these four receive the bare minimum, only 9·2% of the Latin American voting power, i.e. 5·3% of the total voting power, is available for the election of the two remaining

1. Article VIII. 2.b.
2. Article VIII. 3.b.
3. Articles of Agreement, Annex C.

directors, who are then elected on the basis of a single vote for each governor who has not yet cast his vote for a successful candidate. As an example of the results produced by this system, the seven executive directors in office at the beginning of 1969 represented the following groups of countries (with percentages of total voting power in brackets): USA (42·35); Argentina, Peru (14·22); Colombia, Venezuela (14·22); Brazil, Ecuador (13·21); Barbados, Costa Rica, Dominican Republic, Haiti, Honduras, Mexico, Nicaragua, Panama, Uruguay (13·20); Bolivia, Paraguay (1·62); El Salvador, Guatemala (1·28).[1] The more one studies this list, the more struck one is by the ingenuity of a system which can produce such a nicely realistic disposition of forces.

The executive head of the bank is the president, who is elected by a simple majority of the governors representing a simple majority of the voting power.[2] His term of office is five years. The first incumbent, who was elected after a near deadlock, was subsequently re-elected by acclamation for a second term. He is assisted by an executive vice-president, appointed by the executive directors, who has particular responsibility for the FSO.

In principle, the bank has wide discretion in the appointment of staff, with the sole proviso that a wide geographical basis of recruitment is to be preferred.[3] Some political pressures inevitably arise. The bank has been required, for instance, to find room for a number of Cuban refugees. (It should be added that the result has been the acquisition of one or two officials of quite outstanding ability.)

The departmental structure of the bank is very simple. There is an Operations Department, sub-divided into 'Loans', 'Project Analysis', and 'Loan Administration', and a Technical Department, sub-divided into 'Economic and Social Development', 'Training', and 'Technical Assistance'. There are the usual supporting and administrative departments. A particular feature of the bank's organisational structure is the key role allotted to specialist advisers, notably the 'Program Advisor' and the 'Integration Advisor'. These are not, as their titles would imply, technical or academic specialists charged with research responsibilities. They are essentially political figures, freed of operational responsibility, yet with very close access to the president, whose considerable talents are applied to the development, on a continuously evolving basis, of the bank's political philosophy. Unlike most advisers in similar positions, their impact on policy is very marked.

Another feature of the bank's structure, which distinguishes it, most

1. Annual Report for 1968, p. 145.
2. Article VIII. 5.a.
3. Article VIII. 5.e.

notably, from the World Bank, is the strength of its field representation.[1] It has a mission in each member country. The quality of these missions is somewhat uneven, and in some cases little more than project supervision is undertaken, but the trend is clearly in favour of enhancing the field mission's responsibilities.

The bank has a European representative in Paris, whose principal function, not unnaturally, is fund-raising.

In 1965, the bank established the Institute for Latin American Integration, in Buenos Aires, which provides training, research, and advisory services. Up to the end of April 1967, the director was Gustavo Lagos, whose seminal work, *International Stratification and Underdeveloped Countries,* has been cited elsewhere in this study.

The headquarters of the bank are in Washington, where it occupies an undistinguished and indistinguishable modern office block, much like any other new office block in that place.

Operations

The bank's articles make it clear that the central operational function of the bank is the provision of loans.[2] They are less than clear on the question of the principles under which the bank's loans are to be allocated, referring sometimes to 'projects',[3] and sometimes to 'proposals'.[4] It should be clear from the foregoing, and from our previous analysis of the equivalent articles of the African and Asian banks, that the section on 'operations' in the articles of the Inter-American bank, both in its precision and in its imprecision, is well suited to the needs of the institution.

4 Evolution

It has been pointed out in the introductory section of this chapter that there are some obvious dangers in comparing two institutions which have not yet fully established themselves with an institution whose identity has been refined through nearly a decade of operations. Our

1. The writer has argued elsewhere (*Pledged to Development: A Study of International Consortia and the Strategy of Aid,* p. 212) in favour of stronger overseas representation for the World Bank. When the argument was put to officials in the World Bank itself, the example of the Inter-American bank was cited in support. The reply given was that the Inter-American bank's overseas representation was a purely political gesture conditioned by the nature of its membership. This reply throws some doubt on the credibility of the World Bank's frequently expressed desire that the developing countries should regard it as 'their' bank.
2. Article III. 4.
3. E.g. Article III. 6.a.
4. E.g. Article III. 7.a.i.

purpose in Section 3 has been to show that in the case of the Inter-American bank such dangers are more apparent than real. It has been shown that all of the outstanding features of the Inter-American bank can be sufficiently explained in terms of its historical antecedents and of the characteristics of the structure with which it was consequently endowed. In both respects, it differs markedly from its sister institutions. In analysing the bank's initial structure, we have found ourselves inevitably drawn forward into projections of that structure's probable evolution, projections which are corroborated by reference to the bank's actual record. In making similar projections from the antecedents and initial structures of the African and Asian banks, we were forced to strikingly different conclusions.

Comparison would indeed be distorted, however, if we were now to move across the Inter-American bank's record as a whole with the same unifying perspective as that with which we have searched the early operations of the African and Asian banks for corroborative or conflicting evidence. The purpose of this section must be confined to a selective demonstration of some of the practical implications of the analysis already presented. To that end, three aspects of the bank's activities are examined, each of which is in its own way illustrative. First, and most obviously, the salient features of the bank's loan record are briefly described. Secondly, an attempt is made to portray what may be loosely termed the bank's political philosophy, by which is meant, in this context, the principles which underlie the broad pattern of its relations with member and non-member countries. Finally, there is something to be learnt from a look at the bank's approach to a particular problem which exercises most international financial agencies, the problem of leverage, i.e. direct influence on national policies. The first and second questions represent the two main headings under which officials in the bank itself would probably choose to analyse its record. The third is a question to which officials in the bank seem not to attach much importance, a fact which is in itself significant.

It must be emphasised that this selective account leaves out much that is of importance. Technical assistance, for instance, is hardly discussed, except in the political context. The same is true of the bank's procurement policies. The account given here is designed only for comparative purposes.

Loans

The early loan policy of the bank was conditioned by two perceived needs—the need to build up an operational record as rapidly as possible, and the need to construct that record in a manner which would clearly distinguish the bank from other institutions operating in Latin America, and most particularly and most consciously from the World Bank. It was aided in the first respect by the willingness of the US aid administration to feed it with proposals some appraisal of which had already taken place, and in the second respect by the Act of Bogota, with its emphatic endorsement of support for those social sectors which the international agencies had traditionally regarded as lying outside their province.

The bank officially began operations on 1 October 1960. It approved its first loan some four months later, on 3 February 1961. In its annual report for 1961, it presented this interval as a regrettable but necessary delay.[1]

This first loan marked the bank's interest in the social sectors, being for water supply and sewage in Arequipa, Peru. The amount involved was $3,899,000, of which 63% was to be in local currency. The loan was made from the bank's ordinary resources.[2]

Subsequent appraisals within the bank suggest that the return on the project was less than had been expected of it, and that at a later date, with more careful analysis, the project would probably not have been approved. In so far as it was intended as a starting signal, however, it served its purpose. In the course of 1961, the bank approved a total of 73 loans, amounting to the equivalent of $293,695,118. Of this amount, 44% was drawn from ordinary capital resources, 16% from the FSO, and 39% from the SPTF.[3]

This rapid commitment rate drew some sceptical comments from professional observers. It was said, for instance, that the bank was announcing loans for public relations purposes before they had been properly processed, and that its standards of project appraisal were insufficiently rigorous. It appears to be true that the bank has what it chooses to describe as a flexible approach to project appraisal; and it is fairly openly admitted that the bank is under certain circumstances prepared to commit resources to a project of doubtful economic utility, if by so doing it can strengthen its overall political standing in the country in question. But such internal studies as have been made within the Inter-American bank and elsewhere do not suggest a significant difference between the rates of return on projects financed by the Inter-American bank and from other external sources. Where the marked difference lies is in the presentation. The Inter-American bank chooses to emphasise its speed, boldness, and desire to please. Most other international financial agencies choose to emphasise their prudence, high technical standards, and unwillingness to compromise.

The 1961 annual report also contained a statement of loan policy, the main feature of which was a preference for a wide scatter of small loans rather than concentration on a few substantial projects. This policy was implemented fairly consistently in the subsequent years.

1. Annual Report for 1961, p. 1.
2. Ibid., p. 36.
3. Ibid., p. 3.

Over the period 1961-68, the average size of loans from the bank's resources, excluding very small technical assistance loans, was approximately $6m, which may be compared with a global average of approximately $19m in loans and credits from the IBRD/IDA.

In spite of this policy, which increased the burden of administration involved in the processing of loan applications, the bank increased its rate of commitment very rapidly. One device used by the bank to increase the rate of commitment was the conclusion of loan agreements before the necessary technical appraisals had been completed. Negotiations could then continue on the basis of assured funds. Opinions vary on the question of the effect of this approach on the quality of the bank's project appraisals.

The forward policy adopted by the bank had some impact on other agencies operating in Latin America. It seems likely, for instance, that it was a significant factor in the sharp acceleration in the World Bank's lending in 1962. In spite of this acceleration, commitments of the Inter-American bank exceeded the World Bank's commitments in the western hemisphere in 1964, since when the two agencies have operated on roughly similar scales. Disbursements by the Inter-American bank, as the newer of the two institutions, lagged behind for a while, but by 1967 the bank could claim comparability on that account also. If one adds to that the very favourable composition of the Inter-American bank's resources, two-thirds of which were available on highly concessionary terms, it is clear that the Inter-American bank has some claim to be regarded as the principal international development agency operating in Latin America.[1] The figures are shown in Table 9.

The large element of concessionary finance in the bank's resources freed it from the inhibitions suffered by several other development agencies in respect of the borrowers' 'creditworthiness'. In addition, the policy of small loans facilitated an even spread. The geographical distribution of the bank's loan operations are shown in Table 10. It will be seen that there has been a tendency to favour the smaller members, while Argentina and Venezuela, predictably, have received significantly less from the bank, in relation to their subscriptions, than the others. Apart from that, the geographical distribution of the bank's resources has been unusually even, the figure for commitments to Haiti being the only one that can reasonably be read as representing a judgement on the country's overall political or economic performance.[2] It may be

1. This claim, which the Inter-American bank itself frequently makes, is disputed by the World Bank. Comparison is complicated by the fact that one is in fact comparing two *groups* of funds, differently composed and of differing ages. These differences have a bearing on qualitative as well as quantitative comparisons. It is not safe to say more than that the operations of both institutions lie broadly within the same order of magnitude.

2. See address by the governor for Haiti at the ninth meeting of the Board of Governors (AB-140), in which Haiti demanded 'reparations' from the bank.

Table 9 Commitments and disbursements of the Inter-American Development Bank and the World Bank group in the western hemisphere, 1961-68

$m

Year	Inter-American Development Bank						World Bank group				
	Commitments[1]					Total disburse-ments	Commitments[1,4]				Total disbursements
	Ordinary capital	FSO	SPTF	Other resources	Total		IBRD	IDA	IFC[5]	Total	
1961	130·0	48·1	115·6	—	293·7	6·6	148·5	28·0	4·1	180·6	101·4
1962	83·7	40·8	204·9	—	329·4	58·7	412·0	31·0	11·7	454·7	153·3
1963	179·3	32·5	47·1	—	258·9	141·0	125·7	11·4	7·0	144·1	267·1
1964	164·0	49·4	85·9	—	299·0	198·0	257·6	11·6	7·2	276·4	245·0
1965	121·5	196·6	51·2	4·2	373·5	182·1	212·3	18·5	10·2	241·0	184·0
1966	100·9	291·3	—	3·9	396·1	211·8	374·7	7·5	24·1	406·3	257·1
1967	171·0	313·0	—	12·4	496·4	242·5	282·3	2·0	11·6	295·9	256·2
1968	193·6	210·1	—	27·2	430·8	290 9	376·4	9·1	17·2	402·7	n.a.
Total	1,081·7[2]	1,169·8[2]	498·7[2]	47·7[2]	2,797·9[2]		3,199·8[3]	117·5[2]	120·3[3,4]	3,437·6[3]	

Notes:

1. Commitments as shown at end of each year in annual reports. Some of these figures would need to be modified to take account of subsequent adjustments. The IADB figures include re-lending of local currencies.
2. Cumulative totals, net of cancellations and exchange adjustments.
3. Cumulative totals, net of cancellations and exchange adjustments, including commitments made before 1961.
4. Commitments for the World Bank group are given in fiscal years; i.e. for 1961 read 1 July 1960—30 June 1961.
5. IFC commitments include standby and underwriting commitments: i.e. the actual transfer of resources is considerably overstated. Of total IFC commitments to the western hemisphere up to 30 June 1968, $23·7m were in the form of standby and underwriting commitments.

Source: Annual Reports of the IADB, IBRD/IDA, and IFC, 1961-68, supplemented with additional figures supplied by the IADB.

Table 10 Geographical distribution of cumulative commitments[1] of the Inter-American Development Bank, 1961-68

Country	Ordinary resources		FSO		SPTF		Other resources		Total		Share[2]-holding
	$m	%	$m	%	$m	%	$m	%	$m	%	%
Argentina	180·2	16·6	127·6	10·9	43·5	8·7	0·7	1·5	352·0	12·6	22·1
Bolivia	—	—	68·0	5·8	14·6	2·9	5·6	11·8	88·2	3·2	1·8
Brazil	261·9	24·2	241·9	20·7	62·1	12·4	5·8	12·2	571·7	20·5	22·1
Chile	88·4	8·2	100·4	8·6	35·4	7·1	8·9	18·7	233·1	8·3	6·1
Colombia	132·1	12·2	95·4	8·2	49·5	9·9	16·5	34·6	293·5	10·5	6·0
Costa Rica	13·1	1·2	11·5	1·0	12·6	2·5	—	—	37·2	1·3	0·9
Dominican Rep.	6·0	0·6	33·4	2·9	8·6	1·7	—	—	48·0	1·7	1·2
Ecuador	9·3	0·9	25·0	2·1	27·8	5·6	1·2	2·5	63·3	2·3	1·2
El Salvador	7·0	0·6	3·2	0·3	22·0	4·4	3·0	6·3	35·2	1·3	0·9
Guatemala	11·3	1·0	19·3	1·7	14·3	2·9	—	—	44·9	1·6	1·2
Haiti	—	—	7·2	0·6	—	—	—	—	7·2	0·3	0·9
Honduras	0·4	—	39·2	3·4	7·6	1·5	—	—	47·2	1·7	0·9
Mexico	174·7	16·1	134·5	11·5	35·5	7·1	0·5	1·0	345·2	12·3	14·2
Nicaragua	15·8	1·5	26·8	2·3	13·0	2·6	—	—	55·6	2·0	0·9
Panama	1·5	0·1	22·7	1·9	12·9	2·6	—	—	37·1	1·3	0·9
Paraguay	6·0	0·6	53·2	4·5	7·8	1·6	0·7	1·5	67·7	2·4	0·9
Peru	34·4	3·2	75·8	6·5	45·3	9·1	1·4	2·9	156·9	5·6	3·0
Trinidad & Tobago	—	—	5·3	0·5	—	—	—	—	5·3	0·2	0·9
Uruguay	34·4	3·2	26·8	2·3	10·5	2·1	—	—	71·7	2·6	2·4
Venezuela	85·1	7·9	24·2	2·1	72·9	14·6	—	—	182·2	6·5	11·8
Regional	20·0	1·8	28·7	2·5	2·9	0·5	3·5	7·3	55·1	2·0	—
Total[3]	1,081·7	100·0	1,169·8	100·0	498·7	100·0	47·7	100·0	2,797·9	100·0	100·0

Notes:
1. Net of cancellations, but including participations.
2. Members' shares as percentage of total subscribed capital minus the US subscription.
3. Totals may not be consistent, because of rounding.

Source: Annual Report for 1968, Appendix 1-5 and statements of loans (pp. 42-55, 90-105, 122-31, 140-1).

safely assumed that this approximate matching of the level of lending to the size of a member's shareholding is the outcome of applied policy, not merely the accidental reflection of the pattern of loan applications.

When one turns to the sectoral distribution of loans, however, a less consistent picture emerges. In this respect, the bank's policy has undergone some major changes, which are clearly reflected in the distribution of loans. It has already been stated that the bank's initial sectoral emphasis was conditioned by the need to establish a separate identity from that of other agencies operating in Latin America. Some pointers to such an identity were provided by the Act of Bogota, and in the subsequent emphasis, in the SPTF agreement, on hitherto neglected sectors. Of these, the two which proved easiest to translate into specific projects were urban water and housing. These two sectors alone accounted for more than 50% of the bank's lending in 1962, the first year of full-scale activity (see Table 11).

Table 11 Sectoral distribution of loans from the resources of the Inter-American Development Bank, 1962, 1968, and 1961-68

Sector	1962		1968		1961-68	
	$m	%	$m	%	$m	%
Agriculture	72·9	22·1	75·1	17·5	632·7	22·6
Industry and mining	38·5	11·7	58·4	13·6	541·4	19·4
Water supply and sewerage	87·5	26·6	26·8	6·2	420·9	15·0
Electric power	17·7	5·4	127·7	29·6	352·6	12·6
Transportation and communications	4·1	1·2	81·3	18·9	333·2	11·9
Housing	91·6	27·8	26·0	6·0	311·8	11·1
Education	12·1	3·7	9·4	2·2	110·5	4·0
Pre-investment	5·0	1·5	10·0	2·3	61·2	2·2
Export financing	—	—	16·1	3·7	33·6	1·2
Total	329·4[1]	100·0	430·8[1]	100·0	2,797·9[2]	100·0

Notes: 1. Figures taken from annual reports, showing gross commitments.
2. Cumulative commitments, net of cancellations and exchange adjustments.

Source: Annual Report for 1968, p. 5, supplemented by figures abstracted from Annual Report for 1962.

This initial sectoral emphasis was essentially responsive to the bank's political inheritance, rather than representative of a coherent analysis of Latin America's development needs. The bank did not define its operational policy in sectoral terms. Indeed, for the first few years its published documents gave little prominence to the sectoral classification of loans. Operations were classed according to the type of borrower, the three principal categories being direct loans to private enterprise, loans to development institutions for onward lending to private enterprise, and loans to governments and governmental entities. In general, this categorisation may be interpreted as a reflection of the bank's sustained interest in the strengthening of its members' institutional frameworks, a concern which must be distinguished from the narrower institutional requirements which virtually all lending agencies frequently incorporate in their loan agreements. The more specific emphasis on private enterprise appears to have been at least in part the result of US pressure. Some officials in the bank, at least, openly expressed a certain *Schadenfreude* when the bank later suffered two defaults on account of direct loans to private enterprise.

It was not until 1966, in its annual report for 1965, that the bank adopted the practice of classifying its loans by sectors. By then, doubts had arisen concerning the benefit accruing from some of its urban renewal projects. In particular, the distribution of the social benefit of its housing projects had come into question. Partly as a result of this experience, there was a marked sectoral shift. The focus had shifted to agriculture, and to industry and mining, which together accounted for 44% of the bank's loans by the end of 1965. There was also an observable trend towards the traditional sectors for international development agencies—power, transport, and communications—which together accounted for 17% of cumulative bank loans. By 1968, as can be seen in Table 11, these traditional sectors were becoming the dominant sectors in the bank's operations. Curiously, the World Bank was simultaneously moving in the opposite direction, taking a rather more flexible approach to industrial finance than previously, moving very strongly into agriculture, and even, after much hesitation, making some loans for urban water supply. By the end of 1968, cumulative IBRD/IDA commitments for agriculture in the western hemisphere amounted to $325m, and for water supply $38m.

The initial sharpness with which the Inter-American bank differentiated its apparent loan policy from that of other agencies thus diminished, and by 1968 it was clear that its policies and practices were conforming more and more closely to established norms. Yet in character it remains distinct. If not in its loan policy, in what does its distinction lie? To answer that question, it is necessary to turn to the elusive concept of the bank's political style.

Political style

Readers who are already familiar with the Inter-American bank may have found it surprising that this account, in spite of its emphasis on certain promotional aspects of the bank's operations, has given relatively little attention to the part played by Mr. Felipe Herrera, the bank's president. Mr. Herrera is often presented as the embodiment of the bank. Professional observers attribute its policies, and in particular its distinctively flexible approach to the task of project appraisal, to the president's personal attitudes; and they attribute much of the bank's réclame to his peripatetic habits. Such attributions are not always kindly meant.

The staff of the bank itself go further still, though in an entirely different spirit. They habitually assert that the pattern of the bank's operations, its staffing, and its frequent ventures into new areas of debate are all directly attributable to presidential initiatives. 'Everything that happens in this bank starts in the president's office' is a remark that has been made to the writer on several occasions.

Such expressions of respect, whether begrudged or willingly accorded, are impressive; but they are hardly plausible. If one were to accept them as representing a true picture of the bank's decision-taking machinery, one would have to conclude, paradoxically, that the president had failed in his prime task of institution-building. Certainly, the president's personality is an important factor in the shaping of the bank, as is inevitably the case in *all* international bureaucracies, but there are also other factors at work which determine, among other things, what kind of president will be *seen* as appropriate for the institution in question. It is in fact clear that the Inter-American bank's disposition to see itself as operating within the medium of the president's personality is largely a reflection of that process of self-identification which is a familiar phenomenon of bureaucracies, but especially of international bureaucracies, since they lack the normal context of national politics and power relations within which their identity might be more easily defined.

To say this is not to belittle the president's role. On the contrary, it is to emphasise it. The activities of the Inter-American bank have here been consistently characterised as a series of responses to the historical circumstances which gave rise to its creation and subsequent evolution. To see the president as one part of that pattern, to suggest that his style, also, is a reflection of the bank's conditioning factors, is simply to assert that he is the right man in the right place—hardly a derogatory or belittling attribution.

The first election of the bank's president, at the inaugural meeting of the Board of Governors in San Salvador, in February 1960, was closely contested. Eventually the choice was narrowed down to Mr. Herrera and Dr. Ignacio Copete, manager of the Bank of the Republic of Colombia. After Dr. Copete had withdrawn, Mr. Herrera was unanimously elected. Dr. Copete subsequently took up a senior appointment in the bank, as head of its Financial-Administrative Department.

In some respects, Mr. Herrera's qualifications for election were what might be described as the conventional ones. In the seven years preceding his election, he had been general manager of the Central Bank of Chile and then an executive director of the IMF, representing Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay. To these qualifications, however, were added the asset of his having been a politician. In 1953, at the age of 31, he served briefly as Chile's Minister of Finance.

For some years after his election, it continued to be said that his ultimate ambition was to step from the presidency of the bank to the presidency of Chile. In 1964, he appeared to have abandoned any such hope. At the fifth annual meeting of the bank, he was re-elected by acclamation for a further five-year term,[1] and in his concluding speech he referred to his acceptance as 'a serious commitment'.[2] He was again re-elected in 1968.[3]

The most striking feature of Mr. Herrera's presidential style has been the high priority which he appears to attach to the cultivation of the bank's external relations. The entities with which the bank's relations have to be conducted fall into three main classes—the USA, the Latin American countries and their collective institutions, and non-member developed countries. In the USA and other developed countries, the bank's principal interest lies naturally in government policy and in the attitudes of the commercial banks. In addition, a conspicuous feature of the Inter-American bank's approach has been the maintenance of a parallel interest in universities and other places of research where development studies are strong. Remarkably often, it is the president himself who attends the seminars and conferences of North America and Western Europe.

The president would have difficulty in maintaining this outward-looking stance if he were not sure of the cohesion of his institutional base. The impressionistic judgement formed by the visitor spending some time within the bank is that internal staff relations are peculiarly happy. One detects little of the debilitating inter-departmental rivalry which characterises most international bureaucracies, especially the organs of the United Nations. Paradoxically, one reflection of this internal unity is the degree to which officials of the bank are prepared to disagree with each other in semi-public discussions, such as academic conferences. Again, one does not see that closing of the ranks and the tendency towards dogmatism which are common characteristics of international officialdom, and which may usually be taken as evidence of internal tensions and insecurity.

It is difficult to isolate particular reasons for the internal cohesion of the Inter-American bank. Yet some explanation is required, since *prima facie* the bank might be supposed to have a source of tension built into its structure in the cohabitation of Latin America and the USA, in addition to which it may be remarked that the Latin Americans themselves are not noted for their ability to work in unison. The president's personality, it may be tentatively suggested, is one contributory factor. The element of loyalty, partially based on a carefully nourished

1. Resolution AG-7/64.
2. *Proceedings: Fifth Meeting of the Board of Governors,* p. 156.
3. AG-3/68.

sense of direct communication between the president and his staff,[1] is very conspicuous. In more formal terms, a noticeable feature of the bank's staff structure is the absence of hierarchy. There appears to be no equivalent, for instance, of the President's Council in the World Bank, and it is noticeable that proximity to the president is not usually mentioned as a major factor in assessing the relative standing of senior staff members. One reflection of this is a relative freedom from frustration at the middle levels, where a genuine sense of participation in policy formulation appears to be quite reconcilable with the general view that all policy emanates from the president's office. One should add, perhaps, that this sense of participation is to some extent illusory. One can at any time identify, in the Inter-American bank as in other institutions, a few senior officials who have open access to the president, and whose influence within the bank is indubitably enhanced thereby; and one can identify subsidiary foci of policy discussion, which compete to some extent with each other. But the fact remains that the staff of the bank do not consciously see the structure of the bank in these terms, and in the present context the subjective perceptions of staff members are perhaps more relevant than the precise rating of individual officials or departments in the decision-making process.[2]

It is from this base, then, that the president addresses himself to the bank's area of interest. Of the three main classes of countries with which the bank is concerned, the one which is overwhelmingly the principal object of attention is that of the bank's own Latin American members. With brief consideration, this emphasis might appear slightly surprising. Given that the bank is dependent upon the USA for resources, and that the most obvious escape from that dependence lies in the attraction of additional funds from non-member countries, it might be expected that the president would be primarily concerned with strengthening the bank's acceptability to either or both of these groups. True, one way of achieving that result might be to demonstrate the bank's ability to influence the general policies of its members, but it has already been shown—and this is argued more fully below—that the bank does not attach much importance to overall political or economic performance in its operations. Besides, a disposition to bear

1. The writer's first meeting with the president took place accidentally in the stock-room of the Division of Information. He had come, unremarkably enough, in search of one of the bank's publications. Members of the staff subsequently thought it worth emphasising that such casual visits were typical of his style, and appeared to attach some importance to it.

2. This aspect of the bank is discussed only briefly here, because the Asian and African banks do not yet have staff structures amenable to comparative study. A closer study of decision-taking, staff structure, and personnel management in the Inter-American bank would provide, perhaps, material for significant comparisons with the staff structure of UN agencies, and would thus throw light on problems identified in recent studies, e.g. by Sir Robert Jackson, of the UN system.

down on national policy-making processes is far from what is meant by the assertion that the bank's attention is focused on its own Latin American members. Such a disposition, indeed, would have to be taken as contrary evidence, indicating, in political terms, a primary interest in gaining acceptability among the developed countries.

The bank's political perception of Latin America is of a different kind, and should be seen as an extension of the Latin Americans' view of themselves within the Inter-American system. It has been argued in a previous section that the creation of the bank, though directly facilitated by a US initiative, must also be seen in part as an act of resistance against US hegemony. The bank itself, at least in its public presentation, has appeared to see itself as the spokesman of Latin America rather than as a mediator between the northern and southern continents. The question arises, what specific Latin American interests does it represent? If the answer lay merely in the need for a greater flow of resources, one would again expect to see the bank addressing itself primarily to the developed countries. The bank's ambitions, however, are larger than that. In the long term, it shares with other Latin American institutions the aim of enabling the continent for which it speaks to negotiate with the outside world from that position of strength which seemed within its grasp towards the end of the nineteenth century and which subsequently eluded it.

The bank's articles require it 'to cooperate with the member countries to orient their development policies toward a better utilization of their resources, in a manner consistent with the objective of making their economies more complementary and of fostering the orderly growth of their foreign trade'.[1] In the early years, this injunction was rather narrowly interpreted as referring to the bank's loan operations, an interpretation which may incidentally explain the more rigid phraseology adopted in the equivalent articles of the African and Asian banks.[2]

The Inter-American bank's first efforts in this direction took the form of a search for projects affecting more than one member. There was also some discussion of the possibility of concentrating on the relatively backward border regions of its members, on the assumption that this would promote trade with neighbouring countries. Neither search produced very encouraging results, and the subject was hardly mentioned in the annual reports covering the first two years of operations.

Instead of retreating from this sphere of activity, however, the bank typically advanced to a broader and more political concept—the concept of integration.

In March 1963 it convened a meeting in Washington of representatives of all the major organisations concerned with Latin American

1. Article I.2.a.iv.
2. Articles 2.1.a and 2(ii/iii) respectively.

integration. In the same year, it started to direct its technical assistance towards studies with a regional content. More concretely, it set aside \$30m to finance exports of capital goods among the Latin American countries themselves, thus enabling them to compete with the credit terms offered by suppliers in the developed countries.

By the end of 1968, the bank had committed a total of \$33,600,000 to this type of export financing. In addition, it claimed in its annual report for 1968 (p. 10) that project loans amounting to \$229,500,000, mainly in the transportation sector, had been provided in support of integration, as well as \$8,400,000 for pre-investment studies, \$2,100,000 for training and research, and \$1,700,000 for institutional support, making a grand total of \$275,300,000.

Even if one ignores the rather conspicuous element of padding in these figures,[1] a sum representing less than 10% of the bank's total commitments seems a small allocation to an area of activity which the bank's articles identified as one of its central functions and which was continuously proclaimed as such by its officers. It is on this ground, perhaps, that critics of the bank in other institutions suggest that its commitment to integration is really no more than lip-service to the shibboleth of all regional bodies.

The difficulty with such allegations is that it is impossible to see how they might be substantiated, or refuted. A larger commitment of resources might be regarded as a refutation, or it might be regarded merely as foolish extravagance. The amount that the bank has actually committed may be regarded as a pledge of good faith, and is probably intended as such, but it proves nothing more than that, either way.

What is clear is that the bank's major commitment to integration must be measured, not in resources, but in the input of time and energy by its management. Reference has already been made to the sustained emphasis on integration in the speeches of the president and other officers of the bank. But there is more concrete evidence than that. In 1965, Mr. Herrera accepted an invitation from President Frei of Chile to help in drafting recommendations on the acceleration of integration. The other signatories of the proposals which resulted from this invitation, which came to be known as the 'Document of the Four', were Raùl Prebisch, then Director General of the Latin American Institute for Economic and Social Planning, José Antonio Mayobre, Executive Director of the UN Economic Commission for Latin America, and Carlos Sanz de Santamaria, Chairman of the Inter-American Committee of the Alliance for Progress. In the same year, the bank established its Institute for Latin American Integration, in Buenos Aires.

1. Roads, for instance, appear to have been included if they could be shown to point roughly in the direction of a national frontier.

To give a full list of the bank's initiatives in this area would require a comprehensive analysis of the whole integration movement in Latin America, since it is an area in which the bank does not act on its own. Such an analysis is beyond the scope of this study. The point that needs to be made here is that the bank, instead of seeking to isolate a special area of responsibiltiy of its own, has consistently sought to identify itself with and merge itself into a broad political movement. Its contribution to that movement cannot be measured at the present time. At some future date, if a Latin American common market is realised, it may be possible historically to appraise the bank's role in that creation. If, as seems more likely, the effort fails, the only possible judgement will be that the bank worked within the limits of the possibilities as it saw them.

In appraising other aspects of the bank's political style, one is repeatedly forced to similarly imprecise conclusions. That does not necessarily imply condemnation. It merely underlines the difficulty of isolating one institution's contribution to a political trend of which it is itself a part, especially when its involvement is as close as that of the Inter-American bank. What is one to make, for instance, of the annual seminars which the bank conducts in conjunction with the meetings of the Board of Governors? The subjects covered by these seminars have included national economic development agencies, private enterprise financial institutions, European participation, private enterprise and national development programmes, financial aspects of economic integration, regional organisations, higher education, community development, agricultural development.[1] The trend of thought is clear, the impact impossible to measure.

Rather clearer measurement is possible in another of the bank's areas of interest, that of non-member developed countries. To be precise, by the end of 1968 the bank had raised a total of $310,142,086 in non-member countries, of which $179,010,880 was in the form of conventional bond issues and loans.

In view of the difficult conditions prevailing in the world's capital markets in the mid-1960s, the diversity and volume of the resources raised by the bank through bond issues represents a considerable achievement. Its efforts to attract resources directly from the aid budgets of non-member countries have perhaps been rather less successful. Within the bank, disappointment is expressed concerning the relatively small response to the bank's appeals.

These appeals have been sustained on several fronts. In addition to private discussions with European governments, the president and other officers of the bank have addressed the Development Assistance

1. This is only a general indication of the subjects covered. The proceedings of these seminars, known as 'round tables', are published by the bank.

Committee of the OECD, and have sent representatives to its annual high level meetings. Efforts have been made, also, to mobilise influential opinion, through addresses delivered to such institutions as Canning House in London and through frequent participation in international conferences. The bank has also sought to interest non-member countries in its activities by inviting them to send observers to its annual meetings.

In the early years, the bank presented its appeal in rather broad terms, emphasising the promise of the Latin American market, and putting general developmental arguments in favour of support for the bank's activities.[1] In these endeavours, the bank had the support of the USA, which at that time was particularly anxious to persuade other donors to take a share in its Latin American programmes.

One reason for US interest in the attraction of funds from non-member countries was growing concern about the impact of aid on the US balance of payments. In the Congressional examination of the proposal to increase the resources of the FSO, in 1965, the bank's success in raising resources from non-member countries was discussed almost wholly in this context. The US contribution to this increase was tied to procurement in the USA and Latin America, as had been the earlier US contributions to the SPTF.[2] An unfortunate result of the merging of the functions of the SPTF and the FSO, therefore, was the introduction of the practice of tying into what had previously been an unrestricted element of the bank's own resources. It could only be a question of time before the USA would raise the possibility of tied procurement in the bank's ordinary operations.

After the increase in the resources of the FSO had been approved, there was a distinct change of tone in the bank's appeals to Europe. It was made known that the bank was under pressure to restrict all procurement, and that it would have to do so unless greater European contributions were forthcoming.

On 11 October 1967 the long-expected change of policy was announced, and a direct link was established between procurement and the provision of resources. The announcement stated that from the beginning of 1968 'a country in a reasonably advanced stage of development will be considered eligible for procurement under loans from the ordinary capital resources of the Bank and the unrestricted resources of the Bank's Fund for Special Operations in any given period only if, up to a date shortly before the beginning of the period, the country has provided resources to the Bank on reasonable terms in a cumulative amount bearing an acceptable percentage relationship to

1. See, for instance, Mr. Herrera's address at Canning House, 22 June 1961.

2. The Senate and House committee reports estimated that 80-90% of the US contribution would be spent in the USA.

cumulative procurement already effected in such country'. It went on to explain that what it meant by 'an acceptable percentage relationship' was 100%.

In terms of resources, the change of policy produced rapid results. In 1968, the bank obtained commitments from non-member countries approaching $100m, or some $30m more than the highest amount obtained in any previous year.[1] In terms of the bank's political standing, however, the adoption of such a forcing strategy represented a defeat, with the bank moving more closely into line with US policy and with the Europeans falling back into a subsidiary position as outsiders. It thus reduced any likelihood that the bank would be able to use European support to mitigate the constraints imposed by US dominance.

An early warning of this defeat had been provided in 1965, by the failure of the bank's first venture into the field of aid co-ordination. In that year, the bank established a consultative group for Ecuador. It differed from the consultative groups previously established by the World Bank primarily in the manner in which the bank explicitly presented itself as Ecuador's 'financial agent'.[2] Partly for that reason, the group never became effective.

In view of the general European reluctance to become heavily committed in Latin America, except on a basis of straightforward export promotion, it is probable that the bank's efforts on this front were doomed to failure from the start. In the short term, the most damaging result was a weakening of the bank's position on the third of its political fronts, i.e. in its relations with the USA. The massive increase in US support through the FSO, with its concomitant sharpening of US interest in the bank as an instrument of policy, had been a calculated risk. Relative failure on the European front made that risk significantly greater.

Most of the explorations described above—in particular, the sectoral experiments, the support for integration, and the attempts to diversify the bank's sources of funds—were undertaken with US backing. In other areas, notably in the pursuit of policy changes at the national level, the bank has succeeded in resisting moderate US pressure. If a major conflict of interest were to arise, however, it would be unrealistic to suppose that the bank could maintain its independence for long. The

1. It is difficult to give a more precise figure, because of the bank's persistent habit of counting its successes twice, or even three times. The annual report for 1968 gives a figure of $109m, but this appears to include some commitments already recorded in previous annual reports, and some agreements which were actually concluded in 1969, and which will doubtless have reappeared in the 1969 report. The detailed figures given in the 1968 report are: bond issues, $53m; direct loans, $11m; funds in administration, $9m; parallel financing, $15m; other arrangements, $10m.

2. See J. White, *Pledged to Development: A Study of International Consortia and the Strategy of Aid,* pp. 48-50.

continuing increase in the bank's relative dependence on US resources, especially for its soft-loan operations, makes it more and more difficult to sustain any such illusion.

Yet, with the exercise of considerable finesse both by the management of the bank and by the US Government, the illusion is given some semblance of reality. One reason is that in those areas with which the bank chooses to concern itself—and this may well be a factor in its selection of activities—the intermediate objectives of the USA and the Latin American member governments are not sharply in conflict with each other, though the long-range reasons for the pursuit of such objectives are clearly at variance. Another reason is that US policy is ambivalent. Financial, development, commercial, and strategic departments all have their own objectives, and to a limited extent the bank can exploit the differences in picking its own line. More important than either of these factors, however, is the apparent inclusion, among US policy objectives, of an *a priori* interest in the bank's continued existence, as a sign of good will and as a safety valve for some of the pressures that arise in Latin-American relations. Thus, the discretion of the US executive director, the avoidance of confrontation, the evident commitment to the bank among its US staff members, must be seen as a reflection of a certain US governmental attitude as well as a demonstration of Mr. Herrera's political and diplomatic skill. At the time of writing, it was too early to say whether this attitude would persist under President Nixon, but it was at least reasonable to suppose that memories of the events which ultimately led to the Act of Bogota would cause him to see the bank's role in roughly similar terms.

This political support has strengthened the bank's hand in one crucial respect. The bank has not felt itself constrained, as its sister institutions have done, to tailor its operations to fit the assumed expectations of prospective purchasers of its bonds. Thus, the bank has been able to maintain and develop its own distinguishing characteristics, in contrast to, say, the Asian bank, which was shown in Chapter 2 to have gone to some lengths to demonstrate its conformity to established practices, and in particular to the practices of the World Bank.

The Inter-American bank's special position is reflected in the speeches of the president and other senior officials. The general style of these speeches, as has already been shown, is somewhat declamatory. The bank's operations are habitually set in the context of broad political issues, and justified in terms of popular aspirations. The bank's operational record is seldom put at the forefront as a basis for assessing the institution's creditworthiness. Indeed, the whole question of creditworthiness receives less attention than in the equivalent statements of other international financial agencies. At a very early stage, the president took as his theme, in addressing an audience of bankers, the difference between his institution and a commercial bank. He argued that an increased flow of resources was needed 'if rising social pressures are to be met within the framework of representative democracy'. His conclusion was as follows:

> 'The Bank has the great advantage of having sprung from a long-felt regional hope and of resting on concepts of cooperative and multilateral action, since all our countries participate in the Bank with financial and human resources and all are responsible for its direction, management and success. The recognition of our Bank as a major channel for understanding between the United States and Latin America is gratifying and at the same time a historical responsibility. We shall endeavour to discharge it faithfully and diligently and show how a financial institution can be a creative force for international cooperation.'[1]

Undoubtedly, the favourable composition of the bank's resources is a major factor in this style of presentation. The African and Asian banks are in effect compelled to regard loans from their ordinary capital resources as the hard core of their activities.[2] The Inter-American bank looks at it differently:

> 'It is our belief that the success of the institution derives from the balance achieved between the broad policy established to guide and advise the agency and the independent, technical and practical utilization of the most carefully formulated banking orthodoxy, over the long period and in the daily direction of our affairs. I am convinced that we have proved to the satisfaction of this continent, and to the whole world, that it is quite possible to make the wide-ranging objectives of public financing compatible with the most efficient and carefully perfected standards of banking technique currently prevailing.'[3]

That carefully qualified endorsement of 'banking orthodoxy' appears to be as far as the bank has ever gone in acknowledgement of the role of established financial criteria in its own operations.

It should be added that this characterisation of the bank's operations has not affected the retention of its AAA rating in the New York market and its similarly high credit ratings in other financial centres. The crucial factor here appears to be the solidity of the US guarantees, but the bank itself also attributes much of its success in the flotation of bond issues to the professional strength of its Finance Department. The fact that its headquarters are in Washington, where close contact

1. Address before the annual meeting of the American Bankers' Association in New York, 21 September 1960.
2. See pp. 64 and 109.
3. Remarks by Mr. Herrera at the eighth meeting of the Board of Governors, 28 April 1967.

with the world's capital markets is relatively easy to maintain, is probably an additional factor.

Leverage

'Leverage' is the term applied to the practice of linking development loans with requirements in the field of general economic and social policy. These requirements may take the form of a formal agreement, making the disbursement of loans conditional on the implementation of particular measures, most commonly fiscal and monetary measures, or they may be conveyed rather less directly, through the available channels of diplomatic pressure. There are a few recorded cases of direct dictation, especially in bilateral aid programmes, some of which are regulated by standing provisions, e.g. on the nationalisation of foreign assets, which make such dictation almost inevitable. The commoner situation, however, and the one which is of greater relevance here, is one in which the agencies concerned give their support to particular individuals or groups within government who advocate policies of which the agencies approve. The crucial variation lies, not in the degree of pressure applied, which is simply a function of the particular situation, but in the degree of specificity with which the approved policies are set out. If the policies recommended are highly specific, the room for debate is narrowed. A government may well accept the recommendations, simply on the ground that it feels it has no choice. Whether this makes it more likely that the policies will be implemented, or perhaps less likely, is a question requiring further study.

The problems inherent in this situation are particularly acute when an international agency is involved. Such an agency cannot exert pressure on explicitly political grounds. It thus has to argue that its recommendations are technical in character, and are designed solely to secure the 'best' development policy. It thus, in addition to restricting the area of debate, denies that debate is appropriate. This restriction is bound to apply implicitly to the objectives of policy, as well as to the means, since otherwise the debate would become open again. There is thus a *prima facie* case for supposing that leverage in this form, by restricting the area of rational choice, reduces the *consciousness* of rationality in the choices made, and thus makes it *less* likely that the policies recommended will be implemented.

A distinction should be made between leverage, in which development finance is used as an instrument for securing policy changes over a broader field than the one in which the finance is to be used, and the more conventional and relatively uncontroversial practice of insisting on certain conditions, e.g. the commissioning of feasibility studies or the implementation of appropriate institutional measures, which are directly relevant to the project which is to be financed.

In development assistance, leverage is a recent phenomenon. It was first set out in formal terms in the early 1960s by the US AID, under the heading of 'self-help criteria'. It is a phenomenon of particular significance in Latin America, because its practice is more highly developed there than in any other continent, because of a habit, among the World Bank, the IMF, and the AID, of concerting their positions in this respect, and because the pattern of aid in Latin America gives the recipients few alternative sources of external finance if they are unwilling to meet the requirements of these three agencies. For most of them, the Inter-American bank is the only alternative major source of funds.

The Inter-American bank has shown itself consistently reluctant to align itself with the other Washington agencies, and relations with these agencies have sometimes deteriorated as a result (notably when the bank refused to suspend operations in Brazil under President Goulart, while in 1965, when other agencies were engaged in an effort to restrict Colombia's access to external capital, it had to be assumed that the Inter-American bank would not be a party to these endeavours). This reluctance appears to stem from three considerations. First, and most important, the bank fears that to align itself with the other Washington agencies would destroy its political standing as the spokesman for Latin American interests, and would probably not be acceptable to its members. (Similarly, its political standing is enhanced by its maintenance of an independent position.) Secondly, it would be contrary to the bank's general interest in maintaining its distinct institutional identity. Finally, there is widespread scepticism among officials in the bank concerning the practice's real impact. It is argued —and on the available evidence the case seems plausible—that the rather crass dictation of conditions to which the practice of leverage has sometimes led is likely, in Latin America's unstable political environment, to contribute to a political effect quite different from the one intended.

Critics of this attitude in the other agencies claim that the bank's position is not so carefully calculated as is suggested here, and that it is evidence of no more than an unwillingness or an inability to risk offending its members. Certainly, the bank is disinclined to appear as a 'hard line' institution. In assessing whether that disinclination is inevitable, however, the attitudes of the Latin American members are not the only factor to be taken into account. With US support, the bank could probably take a firmer line with its Latin American members, without precipitating a total rupture. But it is by no means clear that this is what the US Government wants. There appears to be some division of US governmental opinion on this point. In the long run the bank could well argue that by falling into line with US aid policy, far from enhancing its standing with the US Government, it would merely destroy its special and separate claim to US financial resources.

It is not in the nature of the Inter-American bank, however, to dodge the issue altogether. A link with national policy-making processes was in fact rather more explicitly built into its structure than was the case with the World Bank, notably in the administration of the SPTF. But the bank sees its own role in this as essentially a hortatory one. It is claimed, for instance, that some of the more experimental loans of the bank have been provided in the hope that the bank's financial support would stimulate governmental interest in what might otherwise remain neglected areas of policy-making. In particular, the bank's support for programmes of land reform is presented in these terms. So far as more formal policy discussions are concerned, the bank holds the view that the proper forum is the Inter-American Committee of the Alliance for Progress (CIAP). In the long run, the Inter-American bank, in common with the other agencies with which its present approach has here been contrasted, hopes that the CIAP will develop as a decision-taking body which will in effect determine the broad framework, both of the policies adopted and of the distribution of development finance for those policies' support. Clearly, the authority of the CIAP will depend on its ability to link these two functions. Its credibility with Latin American governments is to some extent a function of its ability to determine the flow of resources. The intermediate position, which had already been reached at the time of writing, is one in which the agencies concerned operate rather loosely under the auspices of the CIAP for limited purposes. The next step, which is bound to be harder to achieve, will require the formal surrender of some measure of sovereignty on the part of the agencies, so that it ceases to be open to them to reject the auspices of the CIAP when it suits them to do so.

The Inter-American bank's attempts to influence national policy-making, meanwhile, are directed at different policy areas from those which concern the other Washington agencies, and manifest themselves in a different way. As with the bank's more general activities in support of integration, it is virtually impossible to appraise the impact of its efforts.

That is not necessarily to the bank's disadvantage. Attempting to influence national policies is an enterprise of uncertain outcome, with a high risk of failure, and the effects of a perceived failure can be very inhibiting. The general view among officials in Washington is that the Inter-American bank has had no more impact on national policies than the other agencies, and probably less. The principal advantage of the Inter-American bank's approach is that in the Latin American countries themselves it is hardly even noticed that this is what the bank was trying to do.

5 Prospects

The Inter-American bank appears securely established as one of the major development agencies operating in Latin America. In the course of its first decade of operations, it had developed its own particular style in response to the particular environment of the continent that it serves. At the time of writing, there appeared to be little reason for supposing that in its second decade of operations it would develop a character markedly different from that which has been described here.

In one sense, however, the Inter-American bank is exceptionally vulnerable. It is a characteristic of financial development agencies that they have a disposition to isolate themselves from related institutions in which development is discussed in more abstract terms and in which political interests are more explicit. The World Bank, though technically a specialised agency of the UN, has traditionally remained rather aloof from UN developmental activities, and only in the late 1960s did it begin to modify this attitude. The African and Asian banks consciously removed themselves from the orbit of their respective UN economic commissions. The Inter-American bank is unusual in the intensity with which it has sought close and continuing relations, both with its member countries and with those international institutions which are the channels for the political currents of Inter-American relations. It is linked to the latter by virtue of its status as a member of the OAS.[1]

It has been implied throughout this account that the bank's characteristic style was the necessary response to its historical context, and that it was also an appropriate response to the tasks which a regional bank is required to undertake. But there is a price. Appraisal of the bank's achievements has here repeatedly been brought up short by the difficulty of isolating the bank's contribution to the complex and intermingled currents of national and international development policies. The difficulty is particularly marked in the case of the bank's central area of interest, the promotion of Latin American integration. It follows that it is equally difficult to forecast the bank's future achievements with any certainty. Similarly, its relatively lavish endowment in terms of funds is almost entirely the result of a special relationship with the USA. In its first decade, this relationship was undoubtedly advantageous, but there is here a potential vulnerability to changes in US policy against which the bank has no protection. The Asian bank,

1. For the Asian and African banks, the conclusion suggested here is that the arguments which compelled them to cut their links with their respective UN economic commissions were not valid unless they could find *alternative* regional associates. It is interesting to speculate, for instance, on the possible effect of what most observers would regard as the laughable notion of making the African bank an agency of the OAU.

in contrast, gains some security from the diversity of the developed countries included in its membership, while the African bank, poorly placed financially, is at least secure in the knowledge that it has nothing to lose.

These two areas of vulnerability—to changes in the Latin American environment and to changes in US policy—limit the bank's scope for political initiative. If Latin America does achieve a real measure of integration, for instance, it is clear that the crucial momentum will have to come from some other quarter and that one of the results—not necessarily an undesirable result—will be a diminution in the bank's institutional independence. Equally, if the momentum goes out of the integration movement, the bank will be under pressure to revert to a more technical role. To the extent that the creation of the bank constituted a political declaration of a Latin American regional aspiration, it was a substitute for more directly constructive action. To the extent that this substitute is dependent on external finance for its continued existence, it is incapable of realising within itself its ultimate goal.

5 Conclusions

1 The Institutional Pattern

A major theme of this study has been the force of the particular circumstances which imparted strikingly different characters to each of three institutions with apparently similar structures. One conclusion that emerges is that it is difficult to generalise about them. Conclusions which purport to be of general validity for regional banks as a class should be regarded with suspicion. The major conclusions of this study, both in explanatory and in prescriptive terms, are to be found in the substantive chapters, and are relevant only to the particular institutions in question.

Yet the demand for the creation of these institutions, the expression of which is described in the second sections of Chapters 2-4, was remarkably similar in each case. The nature of that demand is sketched in Chapter 1. If, then, the demands are so similar and the responses so varied, the possibility must be considered that regional banks are failing to meet the demand which led to their creation.

It is significant that of the three institutions the one which *appears* to come closest to meeting the demand which led to its creation is the Inter-American Development Bank, though with some serious long-term reservations which were stated in the concluding section of Chapter 4. To a significant extent, that appearance is simply a function of the relatively large volume of resources at the Inter-American bank's disposal—an issue to which we return below. But it is also a function of the Inter-American bank's innovatory capacity, which is expressed through a style which reflects the fact that it was itself an innovation when it was created, the first of its kind. The significance of this chronology was examined in the first section of Chapter 4. The Inter-American bank added to a tried and tested institutional formula the new ingredient of regional identity—*Latin American* regional identity. That identity had been fashioned by a long chain of historical circumstances. Other regions, observing the success of the Inter-American bank, assumed that what was presented for their inspection was a new category of institutions, called 'regional banks'. It was a false category, the totally illusory charm of which lay in the particular features of Latin American regional identity. So they picked up the institutional formula, without adding the necessary new ingredient of their own particular regional identities. They mis-stated the nature of their own demand, and therefore failed to secure the response that they were seeking. In the origins of both the African and the Asian banks, one finds a sharp break, which one does not find in the origins of the Inter-American bank, when the formula took over, when attention was diverted from the nature of the original motive force. One also finds that this formula had an overwhelming conditioning power, which forced both the Asian and the African banks to adopt certain general principles of institutional behaviour, which were not only at variance with the demand that led to their creation, but also inconsistent with the particular features of their own structures which they identified as having particular significance, and by which they differentiated themselves from other institutions which in some respects were similar. In so far as there is such a thing as an identifiable class of institutions called 'regional banks', it is in practice the word 'bank' that is emphasised, not the word 'regional'. In other words, regional banks tend to identify themselves vertically with other financial institutions, rather than horizontally with other regional institutions.

Clearly, the devising of a more accurate response to demand lies largely in the hands of the institutions themselves. In general terms, there are areas of operation available to all three institutions which provide opportunities for a clearer definition of regional identity, and thus a clearer justification for the establishment at the regional level of alternatives to institutions which already exist at the global level. Such areas of operation are suggested in the second section of this chapter, but it is necessary here to reiterate a point that has been made repeatedly in the substantive chapters. The precise working out of a more characteristically regional approach is a matter for each individual institution. The formula implicit in the term 'regional bank' is generic. There is no narrower version of that formula which has objective validity in the Inter-American, African, or Asian contexts. The addition of the ingredient of regional identity is essentially a question of subjective judgement, within a very wide range of choice. In Section 2 of this chapter, therefore, potential areas of operation are identified, but the appropriate method of operation within those areas is not.

Although the range of choice is wide in principle, however, in practice it is greatly reduced by the constraints within which regional banks operate. These constraints arise from conflicts of interest between the developing countries, which define the demand, and developed countries, which provide the resources by which the demand may be met. Regional banks tend to think that they can only operate in the narrow area over which these two sets of interests coincide.

If both groups of clients, i.e. developed and developing countries, have an interest in the preservation and expansion of regional banks, there are two courses of action open to them. Either they can seek to expand the area over which their interests coincide, or they can identify selected interests which may be sacrificed in the pursuit of the common objective. It is most unlikely that the first course will be adopted. Developing countries see regional banks as a means of exercising greater control over the distribution of resources to themselves. Developed countries see regional banks as a way of making their own control of resources less explicit, while retaining an effective influence over the use to which the resources are put and over the pattern of economic relations which they promote. More simply, developed countries see regional banks as a way of making their own position as aid-givers less embarrassing, while developing countries see regional banks as a way of embarrassing the aid-givers more effectively. It is difficult to see how these two interests can be reconciled.

The second course of action, therefore, is the one that has to be examined. Both groups of clients assert the desirability of having financial institutions at the regional level, even if there is some doubt, on the basis of the evidence presented here, about the degree of conviction with which such assertions are backed. Each group of clients has one particular resource which it can sacrifice in the interest of strengthening such institutions. Developed countries have money, and developing countries have sovereignty. It is in these two areas that sacrifices can be made.

Sacrifices in these two areas are likely to interact, because in practice both kinds of sacrifice involve a shift of resources from one channel to another. From the point of view of the developed countries, allocation of increased resources to regional banks is impeded by a conviction that there are other multilateral channels which are more 'efficient', i.e. respond more appropriately to the developed countries' demands. So for the developed countries it comes down to a choice between regional banks and the World Bank. From the point of view of developing countries, allocation of increased decision-taking responsibility to regional banks is impeded by a fear that this would impinge on their special relationships with particular bilateral donors, and possibly result in a reduction in the absolute volume of aid. So for the developing countries it comes down to a choice between regional banks and their present bilateral programmes. If one brings these two choices together, one arrives at simple questions concerning the institutional pattern of the transmission of resources from developed to developing countries. Given some sort of limitation on the total volume of the flow of resources, how should resources be allocated between regional banks and the World Bank? And what should the relationship be between regional banks and bilateral aid programmes? The answer to the first question lies in the hands of the developed countries. The answer to the second question lies in the hands of the developing countries.

The Inter-American bank has succeeded in convincing the developed countries—or rather one particular developed country which is of overwhelming significance in the Latin American context, the United States

—of its utility as an alternative to the World Bank. It was shown in Chapter 4 that the decision to establish an Inter-American bank was delayed by the failure to identify for it a role which could be clearly distinguished from that of the World Bank. Once established, as the result of a particular set of historical circumstances, it quickly identified such a role for itself. Subsequently, the allocation of US resources to the Inter-American bank appeared not to be significantly affected by considerations of the amounts needed by the World Bank group. Conversely—though this question was not examined in Chapter 4—US attitudes to the replenishments of the resources of the IDA do not appear to have been affected by consideration of the large amounts already allotted to the soft-loan arms of the Inter-American bank.

In the case of the African and Asian banks, the sequence of attitudes was reversed. An accelerating force behind their establishment was the conviction that regional banks as a class had a general utility. The precise nature of that utility in the African and Asian contexts was inadequately considered. Once established, as the result of a general attitude to regional banks as a class, they failed to see the need to identify particular roles for themselves. Indeed, one of them, the Asian bank, has made a point of trying to adopt the functions and practices of the World Bank. As a result, developed countries' consideration of the allocation of resources to these institutions has been delayed by the greater urgency, as they see it, of strengthening the resource structure of the World Bank. (One must add to that, however, the observation that their perception of the urgency of the latter issue has not been excessively vivid. Negotiations for the replenishment of the resources of the IDA have on occasion lacked momentum.)

There are two grounds on which developed countries might wish to support regional banks. They might consider that the functions performed by the World Bank could be more usefully performed at the regional level, on the assumption that at this level there will be a clearer perception of local needs and constraints; or they might consider that there are certain additional functions, apart from those performed by the World Bank, for which regional banks are particularly suited, such as the promotion of regional integration. Even if the latter view is held—and this is the view which is more commonly expressed in developed countries' official statements—the fact is that developed countries have to deal with structurally rather similar institutions at the global and the regional levels. What is at issue, therefore, is simply the proportional distribution of the developed countries' resources between the global and the regional levels.

The issue can be narrowed still further. The substantive chapters have shown the extent to which the development of institutional style is impeded by preoccupation with the need to raise resources on the world's capital markets. What is under discussion, therefore, is the allocation of resources on concessionary terms within the context of the developed countries' aid programmes. In other words, it is necessary to consider the proportional allocation of resources between the IDA and the special funds of the regional banks.

The range of choice is limited by two extremes, neither of which is a practical proposition, but both of which have a certain ruthless logic which is illuminating. One is to abolish the IDA. The other is to abolish regional banks.

In abolishing the IDA, which they could in principle do simply by withholding resources, an eventuality which briefly seemed quite likely to materialise in 1967-68, the developed countries would in effect be identifying institutions at the regional level as the principal channel for the transmission of development finance within a multilateral framework. If the concessionary resources of the Inter-American bank were held at the present level, and the resources currently allocated annually to the IDA distributed to the African and Asian banks and a number of subsidiary institutions, the provision of concessionary resources would become their principal business. The effect on such institutions would be startling, and in terms of the demands expressed by developing countries beneficial. The IBRD would then presumably revert to its earlier function, as the principal agent for the mobilisation of the world's capital markets in the interests of a limited number of relatively creditworthy countries. But there would be serious side-effects arising from such a decision, for it would constitute an admission of defeat in the attempt to establish global principles for the conduct of international relations, and would thus undermine the already rather slow evolution of the whole UN system.

The abolition of regional banks, if it were linked with sufficiently precise conditions concerning the operational structure of the World Bank, would in practice have a very similar impact on the institutional pattern of multilateral development finance. The general case against the World Bank advanced by developing countries, a case which is difficult to substantiate or refute, and which is therefore suspect, is that it reflects too closely the views and interests of the developed countries. The more particular case which they advance, and therefore the case which is more amenable to policy decisions, is that it is too centralised. In return for the abolition of regional banks, therefore, one would expect the developing countries to demand an effective decentralisation of the World Bank's operations. This would entail, not merely the establishment of token regional offices, as has already been done in Africa, but the total transference of the World Bank's area departments to the regions in question. What would be left in Washington would be a small department responsible for fund-raising (though this might have to be moved to Paris), an economics department, and a pool of technical specialists upon which the area departments could call. If one switches attention from the formal control structure of international agencies to the environmental factors which condition bureaucratic behaviour, it is clear that such a shift might go a long way towards meeting the demand which caused regional banks to be established, without sacrificing the global principles which the UN system asserts, and to some extent represents.

When one has finished playing with such fantasies—though the point must be reiterated that the fantasies are instructive—one is left considering a number of possibilities which lie between these two extremes. Among such possibilities, two are conspicuous in their affinity to the kind of policy decision that aid agencies in developed countries have actually tried to promote in recent years.

The first possibility lies in the strengthening of relations between institutions at the global and regional levels. In the substantive chapters, it has been shown that the World Bank's relations with the Inter-American bank are at best uneasy, with the African bank they are crippled by mutual suspicion, while with the Asian bank the problem is one of an excessive harmony of style. None of these relations is functional.

The World Bank has an unrivalled position as a mobiliser of resources for development. The regional banks have an unrivalled position as media through which the developing countries can communicate their resource needs. The naive conclusion is that these two positions might be combined, if the World Bank were to contract out a large part of its loan operations to the regional banks, acting as a financial holding company and a provider of technical services. There is a model for this relationship in the status of the UN specialised agencies as executive agencies of the UN Development Programme. The difficulties, however, are immense. It is difficult to see how the World Bank might be persuaded to delegate responsibility in an area in which it considers, not wholly without justification, that it has superior skill, experience, and professional integrity. Equally, it is difficult to see how regional banks, dimly aware of the political nature of the demand for their services, might be persuaded to accept inferior status as subsidiaries within a global group. To arrive at such a relationship, therefore, regional banks would have to pass through some intermediate stages, during which these attitudes might be amenable to change. The nature of such stages is discussed in the next section.

The second possibility is a reflection of the practical difficulties inherent in the first. Given the sociological difficulties of integrating financial institutions at different levels, the developed countries are thrown back on to the horns of the embarrassing dilemma of the proportional allocation of resources. The way of escape from this dilemma lies in a switch of attention from proportions to phasing. In 1970, the attention of the developed countries was focused on the third replenishment of the resources of the IDA, at a proposed annual level of \$1,000m. If the principle of maintaining that level is accepted, it should be possible to turn attention to the needs of the regional banks, which have in the past suffered from the concentration of attention on the IDA. Assuming that subsequent replenishments of the resources of the IDA can be secured at the same level without arduous negotiations, the developed countries should then be free to turn their attention to the establishment or expansion of equivalent special funds for the regional banks. This would require a decision to postpone consideration of further *increases* in the resources made available to the IDA until the concessionary resources of regional banks had risen to a level at which loans from these resources exceeded loans from their ordinary resources, which require relatively high rates of interest and short repayment periods.

A decision of this kind would constitute a first step towards the strengthening of regional banks as institutions capable of developing coherent and significant regional operational programmes. It would in fact fulfil what has been shown in the substantive chapters to be a necessary condition for the adaptation of existing formulae, or the development of new ones, in a manner appropriate to regional conditions and relationships. In the case of the African bank, this may well be a question of survival. In the case of the Asian bank, it is a question of enabling the institution to respond more effectively to the demand, since its present survival is assured only by means which remove it from the context of the region's political economy, and thus from responsiveness to the demands of its regional developing members. (Its utility to the developed members is thereby also reduced, as is shown by the decision not to ask it to manage the Mekong River scheme.)

It will be recalled that the analysis presented in the substantive chapters drew a significant distinction between funds which are incorporated into the operational structure of the institutions in question and funds the use of which is subject to conditions laid down by the particular country which provides them. The latter constitute a thinly disguised form of bilateral aid. They are seen by the contributors as direct support for the purposes specified, rather than as general subventions to the work of the institution which administers them. As a modified form of conventional bilateral aid, and thus as an alternative to it, they do not have the effect of enabling the institution to attract additional bilateral aid to its operations, in parallel financing arrangements, project syndicates, or any of the other mechanisms which the World Bank and the Inter-American bank have had some success in developing. In contrast, an incorporated fund, financed in accordance with an agreed scale of contractual subscriptions, not only strengthens and unifies the institution, but is likely to have a marked effect on its operational style.

Thus, the more the developed countries seek to retain separate control of their individual contributions, the less impact they are likely to have on the character of the institution whose operations they are trying to shape. In pursuit of the objective of institution-building, therefore, the need is for consolidation of the sources of concessionary finance, within the structure of the institution in question, the precise uses of which are determined by the institution's management in accordance with policy laid down by its controlling organisms. To the extent that the developed countries wish to have a voice in determining the use of special funds, they will express this wish less damagingly if they seek continued participation in the institution's decision-taking processes, rather than the specification of uses in prior negotiations or in the retention of some sort of external veto power.

This raises the question of the control structure of such funds. It is a particularly sensitive question in the case of the African bank, which does not have developed members. It would also present some technical difficulties for the Inter-American bank, if such a fund were financed by countries which are not members of the OAS. Clearly, the establishment of a separate governing body, with the contributing countries included as members, would have the same effect, in a collective form, as the retention of control by individual contributors. It would either set the fund outside the institutional framework, or drastically alter the status of the institution itself as a regional entity. A more effective formula might be the creation of an advisory council, empowered to make general policy recommendations, while leaving the question of specific operations to the institution's managements. It should be remembered that such funds have to be replenished from time to time. It is unlikely that the recommendations of the advisory council would be ignored.

The range of action open to developing countries is more limited. The principal source of strength to regional banks lies in the volume of resources at their disposal, which is not what the developing countries can provide. They would significantly increase the status of such institutions, however, and thus their capacity to attract resources, if they made greater use of them. As a first step, attention might be given to the potential capacity of regional banks as co-ordinating agencies. Developing countries for which co-ordinative mechanisms are created, such as consultative groups, usually accept the World Bank as the manager of such groups, on the basis of an assumption concerning the World Bank's ability to mobilise resources. But there is a cost, as countries for which such groups exist have discovered, in terms of the donor orientation that the groups acquire. A deliberate decision to promote regional banks in this role, even at the cost of a reduction in the volume of aid, would introduce greater equality in the context of what US aid administrators sometimes describe as mutual pledging—i.e. a firm assurance concerning future aid flows in return for assurances concerning the policy framework within which those aid flows would be used. Similarly, the riparian states of the Mekong River basin could well have insisted on the retention of 'their' institution as the managing agency for the financing of projects.

A more fundamental step, and one which developing countries which receive large amounts of bilateral aid would at present be unwilling to accept, would be the inclusion of regional banks in ordinary bilateral negotiations. Initially a complicating factor, which would restrict the freedom of recipients to exploit their special relationships and which might therefore result in a reduction of aid, it should ultimately provide the developing countries with a financial agent which would help them to mitigate the effects of having to negotiate with several donors, all of which have their own preferred conceptions of the nature of the development process and of the kind of contribution that they can most usefully make, and their own idiosyncratic policies and practices in aid negotiation.

There are other, more limited, ways in which developing countries might help to strengthen regional banks. In the specific case of the African bank, for instance, they might pay their subscriptions. More generally, all the regional banks, though in varying degrees, have difficulty in attracting the staff they need. There is a genuine difficulty here, in that the administrators who could contribute most to the quality of regional banks are probably also the ones most needed in their own countries. There is hardly room for more than a few adjustments at the margin.

Nothing that the developing countries can do, however, is likely to have as significant an effect on regional banks' evolutionary capacity as an increased allocation of concessionary finance. The poor may voice the demand, but the rich have the last word.

2 Operational Policy

If the developed countries were to move in the direction suggested in the preceding section, it would be reasonable to predict some fundamental changes in both the style and the content of regional banks' operational policies. Some likely changes, for instance, were sketched in the concluding section of our examination of the African bank. Within the concepts of this study, such changes would represent a more articulated response to the demand which brought the regional banks into being.

In concluding the study, it is worth examining briefly the question whether the regional banks themselves have the means to stimulate such action on the part of the developed countries, or, even without additional resources, to adopt a style more appropriate to their regional status and functions. It has been argued in the substantive chapters that their freedom of action is severely restricted by the environment in which they operate, and we do not intend to reverse that conclusion here. It is possible to identify a number of areas, however, in which increased activity by regional banks would present a challenge to their client governments which would demand some sort of counter-response —not necessarily, it must be admitted, a favourable one.

The first of these lies at the heart of their status as regional institutions. We have shown that a significant feature of the Inter-American bank is its formal status as an agency of the OAS. We have also shown that the African and Asian banks took steps to divorce themselves both from the organisms of regional politics and from the UN regional commissions which provided the framework for their establishment. Though there were practical reasons for these decisions at the time, their long-term effect has proved deleterious. The tendency of regional banks to fall away from the regional framework has been exacerbated, also, by their technical needs, which have caused the Asian bank to call on the advisory services of the World Bank and the African bank to call on the resources of the UNDP. Increased co-operation by regional banks with other regional agencies, and their participation in explicitly political regional negotiations in an advisory capacity, together with a rapid running down of their relations with the global agencies of the UN system, would help to re-establish that differentiation of levels which is part of the case for regional banks' existence. With such a differentiation clearly defined, it should then be possible to define and reconstruct the functional relationships between financial institutions at different levels—i.e. between the World Bank and the regional banks —in the terms suggested in the preceding section, giving attention to the possibilities of delegation and the pooling of technical services.

Secondly, regional banks have on the whole shied away from the one explicitly political function which they all have, which is the promotion of regional integration. With the partial exception of the Inter-American bank, they have tended to substitute for the concept of regional integration—which involves the promotion of intra-regional trade, which in turn involves collective decisions about the regional *distribution* of the means of production—the concept of regional communication, which can be expressed in decisions which are politically much more bland, such as easily reached agreements on the construction of roads, harbours, telecommunications links, etc. A much fiercer concentration on the regional distribution of resources would enforce a sharper definition of the scope and limitations of the demand for institutions at the regional level.

Thirdly, at least two of the institutions with which we are concerned have a special tenderness for their smaller and poorer members. But it is a tenderness which has not yet been given operational effect. Activities in this area are closely linked with the suggestion advanced in the preceding section, concerning the role of regional banks as co-ordinating agencies. Mr. George Woods, when he was president of the World Bank, used to declare that 'the country is the project'. It is not difficult to think of countries, especially in Africa, where this is inevitably true. Indeed, in granting a loan of any size, a financial agency may find itself in a situation in which 'the project is the country'. It is not sufficient, therefore, to think merely in terms of making special efforts to find acceptable projects in such countries. A more programmatic approach is required. In the nature of such countries, this approach will often require the displacement of a dominant bilateral donor.

The areas of operation identified here are risky areas. Most of the areas in which regional banks can acquire an innovatory capacity are risky. It is inherent in the demand for regional banks that they should venture into risky areas, which institutions at the global level are not prepared to enter. Such additional unexplored areas as have been identified in the substantive chapters, for instance, are at least as risky as those mentioned here.

In taking risks, one has to weigh the possible return againt the possible loss, measured against some scale of probability. The assessment made by the three institutions studied here is that the return on the kind of risk under discussion is small and uncertain, and that the loss is very probably large. Given the overwhelming significance of the mobilisation of resources in their calculations, it cannot be certain that they are wrong. A regional bank, after all, has to behave as a bank, not as a prophet in the wilderness; and banks need money. Regional banks can hardly be expected to resolve the inherent inconsistency in the demand for them, which requires them to behave, not only as banks, but also as prophets, for which certain ascetic virtues are required. Regional banks are at best a substitute for a more direct perception of the political aspirations of developing countries. The need for that substitute is inherent in the relationship between rich and poor countries. The responsibility for resolving the inconsistency which permeates the demand for such a substitute lies, not with the regional banks, but with their clients.

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IA = Inter-American Development Bank
Af = African Development Bank
As = Asian Development Bank

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