

Development Financing under Constraints: A Decade of African Development Bank. By Ime Ekop Ebong. Bonn-Bad Godesberg: Verlag Neue Gesellschaft GmbH. 1974. 172 pp. (special Issue No. 8 of the *Vierteljahresberichte*.)

Development Financing under Constraints, as the author himself puts it, is 'aimed to recapitulate the spirit in which the African Development Bank was founded, describe how it later functioned and why it functioned the way it did'. The study is an excellent attempt to highlight economic cooperation and integration and to discuss its rationale in view of the given constraints. The main idea behind the establishment of an institution, like the African Development Bank (ADB), was necessarily an 'all-African Investment Bank' to promote development projects. The newly independent nations of Africa, lacking as they are in the basic infrastructure, are beset with difficulties in surviving as economically viable units. As such, the need for a pooling of resources and for technical know-how is particularly imperative.

The study is divided into ten chapters. The first chapter provides background against which the ADB was created. The recommendations of the Economic Commission on Africa (ECA) panel of experts called for "a suitable financing institution for Africa, [which] if efficiently organised, could play an important supplementary role in mobilizing additional outside investment". The nine-member committee constituted to lay down the broad framework on institutional and other matters stressed that the Bank be established as an 'African institution'. However, non-African participation in the resources of the Bank, whatever form it may take, should not jeopardize the essentially African character of the Bank.

Chapter II lays down the membership and organizational set-up of the Bank. At the time of its inception on September 10, 1964 the Bank had a total membership of 22 which, by the 30th June, 1974, stood at 39 countries. All powers of the Bank are vested in the Board of Governors composed of one Governor and one alternate Governor appointed by each member country. The rest of the set-up is almost the same as it should be for any bank, i.e. it consists of a Board of Directors, President and other staff.

One of the distinguishing features of the ADB, as compared with other major multilateral lending agencies, is the procedure for the election of the Directors. The system has been based on 'voting groups' which provide opportunity to smaller members to bargain and achieve a rotation in the representation of the Board of Directors. The selection of the staff, although based on competence, is required to take into account an equitable geographical distribution criterion.

Chapter III deals with financial structure and voting power. The Bank's authorised capital stock was fixed at 250 million units of account (U.A., the value of a unit of account being 0.88867088 grammes of fine gold. The initial capital stock was divided into 25,000 shares of a par value of 10,000 units of account each. A half of that amount, or an equivalent of 125 million units of account, was payable in gold or convertible currency while the other half was callable.

The subscription of the African countries to their own regional bank is lower as compared to those of the Asian or American Countries in the Asian

and Inter-American Development Banks. Following the conventional pattern, the criteria for determining the capacity of members to contribute were taken to be population, national income, exports, and tax revenues of the state concerned. In order to avoid extreme differences among members' subscription, minimum and maximum limits, equivalent to U.S. \$ 1 million and U.S. \$ 30 million respectively, were laid down.

So far as the voting power is concerned, the system consists of allocating a 'minimum' voting power of 625 votes to each member, irrespective of its initial subscription, plus one additional vote for each share of 10,000 units of account subscribed by it. The objective of this technique is to achieve a more balanced distribution of voting power among members in the spirit of 'African solidarity and political equality.' For instance, Botswana, Central African Republic, Gambia, Lesotho and Togo each contributed one million units of account or only 0.39% each of the Bank's capital stock as on 30th June, 1974. They were each entitled to 1.44% of the voting power while Libya, which contributed 30 million units of account or 11.56% of capital stock on the same date, was assigned only 7.2% of the total voting power or nearly five times as much as that of the countries whose contributions were one thirtieth of the Libyan contribution.

The greatest difficulty that the Bank faced was in respect of mobilization of resources, particularly from outside of Africa. For instance, the Bank could not borrow on the international capital market, the foremost reason being persistence of arrears in the payment of subscription that adversely affected the Bank's credit worthiness.

Chapter IV deals with the problems and issues relating to the arrears in the subscriptions of the Bank's members. At the end of April 1974, total outstanding arrears were 15.89% of the total called-in capital of the units of account (U.A.) 124.67 million. If one compares the 1969 percentage of arrears 39.71%, with that at the present time the current level seems quite heartening. Commenting on the arrears and delays in subscriptions the critics have argued that it was the faith in the ADB that had diminished and not the ability of its members to contribute. Also contained in the chapter is a plan for the recovery of the arrears.

Chapter V provides the reader with the background and rationale for the establishment of African Development Fund. 'Fund would give special priority to the development of relatively less developed members of the Bank and provide the necessary finance on soft terms.' The establishment of the Fund could be a first step to the ultimate opening of the equity capital to the non-regional countries. Cooperation with the non-regional countries in the administration of the Fund on a 50:50 basis might run smoothly and may dispel the fears, real or imagined, of African States regarding their susceptibility to outside influence. On the other hand, experience with the cooperative running of the Fund might justify their worst fears about the effects of outside influences on the African character of their institution.

Chapter VI deals with the question of opening capital stock of the ADB to the non-African Countries. It was decided by the Committee of Nine on the ADB that whatever form it took, non-African participation in the resources should not jeopardize its essentially African character.

Chapter VII relates to operating policies and procedures. As a rule the ADB insists on financing "sound specific project, or group of projects" having a potential to contribute to the economic development of a country or countries. It also insists on demonstrating efforts towards self-help and mobilization of local resources. The Bank has been charging a rate of interest ranging from 5 to $8\frac{1}{2}\%$. Now a single 6% rate of interest is being charged independent of the nature of the project.

Chapter VIII discusses operational activities dealing with the problems that emerged and the overall performance. The 'take off' in operational activities was achieved after a long time. During the first four years of operation, less than U.A. 10 million on annual average basis were loaned out by the Bank. This average rose to U.A. 25-30 million between 1971 and 1974. Total loans and the investment approved came to U.A. 145.3 million, representing Bank's participation in 72 different operations in 30 member countries as well as two multi-regional projects concerning several member countries. The Bank's contribution made it possible for member countries to finance, from domestic as well as other external sources, projects to the value of roughly U.A. 500 million. For every unit of account supplied by the Bank, member countries were able to mobilize nearly $2\frac{1}{2}$ additional units of account.

Chapter IX pertains to general studies and other promotional activities. The last chapter, Chapter X, brings out the conclusions and future perspectives of the Bank. Stress has been laid on increasing the resource base and eliminating legal, political and psychological constraints.

The book, containing 172 pages with as many as 27 tables, is a useful addition to the literature on regional cooperation and economic integration. The notion regarding the creation of an institution like the African Development Bank is not a unique one. The emphasis is now beyond national and supra-national development to continental development. If one could look at and compare the major objectives and the organizational pattern of the ADB with those of either the Asian Development Bank or the Inter-American Development Bank, much dissimilarity will not be found.

The too much stress on the 'African character' of the Bank sounds fascinating not only to the Africans themselves but also to those who are committed to the philosophy of 'regional grouping' and 'self-help'. Nevertheless, this kind of heavily biased conservative approach may not produce dazzling results. Those who would like to compare the African Development Bank with the Asian Development Bank or the Inter-American Development Bank should not forget that the latter (ADB or IADB) has an edge over the African Development Bank not only in terms of resources but also in skill and know-how. African countries will have to put every endeavour to enlarge the scope of non-African participation in their development activities.

The efforts on the part of the Bank to evolve an equitable and just system of voting is appreciable where smaller countries have equal chance to qualify for the Board of Directors. What is really required is to provide an incentive for the richer ones to contribute in a big way, keeping in mind that the Libyan subscription, which ran into U.A. 30 million, resulted in a total assignment of only 7.2% voting power. This may be compared with the subscription of

Botswana which is U.A. one million with a voting power of 1.44%. Libya is an African country and it is hoped that 'African character' will not receive a setback if the upper limit to subscription is enhanced.

If the ADB has to run on modern banking principles, then it has to have a competent and well-trained staff. It was really astonishing to note that the Bank had to make provisions for such skills as simple typing to run a multi-national African Bank. What is suggested in this connection is that the Bank should recast its 'hard line' on staffing matters and if possible make room for non-African personnel in fields in which qualified African nationals are not available.

The author is rightly critical that in spite of the mandatory requirement that the Bank shall "contribute to the social progress", it has failed to finance projects with "social content", during the first decade of its existence.

One important inference that a reader can draw by going through the record of subscriptions and the arrears is that only in the last few years of the decade have the members realised the significance and the pivotal role that the Bank can play in mobilizing resources.

The author has deviated from the usual practices while describing the first decade of the ADB. He has not tried to eulogise the Bank's achievements but has been honest in pinpointing the shortcomings and has offered criticism wherever it appeared justifiable. *Development Financing under Constraints* is a good contribution in the field of monetary economics and students, scholars and policy makers will find it a very useful publication.

M.A. Behzad

Pakistan Institute of
Development Economics,
Islamabad.

The Transition in Open Dualistic Economies. By Douglas Paauw and John Fei. New Haven: Yale University Press. 1973. 306 pp. Price \$ 12.50

This book is concerned with a special type of less developed countries having open dualistic economies. It deals with transition growth, the postwar era of 1950—1970, which is a relatively short period, sandwiched between the two long epochs of colonial growth and modern economic growth.

The hallmark of the colonial epoch is the imposition of foreign political control on the agrarian economy of the colony to result in a heavy reliance upon primary product exports. The non-agricultural sector and the commercialized agricultural sector form an enclave which is "involved in a triangular pattern of resource utilization with the foreign sector." The economic goal of colonialism is to extract from the colony the maximum export surplus. This feature of colonial growth is vital to the examination of the transition growth process because the subsequent experience of the colony after political independence depends on how these export profits are employed.