Chapter-IV

Role of Asian Development Bank in the Development of Economic Infrastructure
CHAPTER - IV

ROLE OF ASIAN DEVELOPMENT BANK (ADB) IN THE DEVELOPMENT OF ECONOMIC INFRASTRUCTURE

The Asian Development Bank (ADB) was set up following the recommendations and suggestions of the First Ministerial Conference of the Asian Countries held at Manila in Phillipines in December 1963. The Bank came into existence in November 1966 and formally started functioning in December 1966 with its head quarters in Manila. The Bank is owned by the governments of 31 (thirty one) countries from the Asia-Pacific region and 14 countries from Europe and North America. The Bank was established for the purpose of providing financial assistance, promoting investment and providing technical assistance to the developing member countries and generally for fostering the economic growth and economic cooperation in Asia and Far East. This chapter makes and attempt to assess the role of the ADB in the Development of India's economic infrastructure.

The membership of the Asian Development Bank is open to members of Economic Commission for Asia and Far East (ECAFE), Associate members of Economic Commission for Asia and Far East (ECAFE), other countries in the ECAFE region which are members of United Nations or any of its specialised agencies.

Admissions to the membership of the Bank may also be obtained upon the affirmative vote of two thirds of the total number of Governors representing not less than three-fourth of the total voting power of the members. ²

The foremost functions of the Asian Development Bank is to promote investment in the ECAFE region of public and private capital for development purposes and to utilise the available resources for financing development, giving priority to those regional and sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole and having special regard to the needs of the less-developed member countries. It also meets the requests from members in

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the region to assist them in co-ordination of their
development policies and plans with a view to achieving
better utilisation of their resources making their
economies more complimentary and promoting the ord-rly
expansion of their foreign trade, in particular intra-
regional trade and to provide technical assistance for
preparation financing and execution of development
projects and programmes, including the formulation of
specific proposals. Another function of the bank is
to cooperate with the United Nations and its subsidiary
bodies, including in particular ECAFE and with public
international organisations and other international
institutions as well as national entities whether
public or private and to interest such institutions
and entities in new opportunities for investment and
assistance, and to undertake such other activities
and to provide such other services as may advance its
purpose. In addition to these functions, the Bank
also undertakes the development of economic infrastructure
in the backward or developing countries of the region.
It is in the context of this last-named activity of
the bank that we will devote our discussion in the
pages that follows.
INDIA AND ASIAN DEVELOPMENT BANK:

India is one of the founder members of the Asian Development Bank (ADB) and currently the fourth largest contributor to its capital stock. Since the inception of ADB India although eligible has refrained herself from borrowings from the Bank. The policy of the Government of India has so far been not to take any loans from the Asian Development Bank (ADB). In the past India was taking care to see that smaller and poorer countries of the Asian region get the ADB loans. However, with the decrease in the level of fresh commitments of concessional loans and assistance from the International Development Association (IDA) and stagnation in official capital flows from other multilateral sources it was considered proper by the Government of India to diversify the country’s access to the multilateral capital flows.

India, therefore decided to borrow, to begin with, from Asian Development Banks ordinary capital sources. The first loan agreement signed on May 20th 1986 between the Industrial Credit and Investment Corporation

3- ADB lending crosses $ 2 billion Mark, The Times of India, New Delhi- April -20, p.1
of India (ICICI) and ADB was for amount of $ 100 million. The total quantum of lending from the ADB upto December 1986, was of the order of $ 250 million.4

The year 1986 proved to be good for India so far as it was able to break a five year deadlock with the Asian Development Bank (ADB) on its right to borrow from this institution. The Asian Development Bank (ADB) has approved for the first time a loan assistance of $ 100 million to India. The original application was made in 1981 for a total of $ 2 billion but India later reduced its total quantum of borrowings to $ 1.5 billion following stiff resistance from the U.S.A. with negotiations at regular intervals. India's first loan was ultimately approved on April 3rd 1986 to be repayable over 15 years including a grace period of three years.5 According to the Asian Development Bank sources this loan will be used by the Industrial Credit and Investment Corporation of India (ICICI) for re-lending to private Indian business enterprises to enable them to modernise and expand their factories.

4- ADB lending Crosses $ 2 billion Mark - The Times of India New Delhi - April 20, 1987, p.1

5- Agricultural Situation in India; Directorate of Economics and Statistics - Department of agriculture and Cooperation Ministry of Agriculture , G.O. 1, New Delhi, May 1986, p 99
The loan which carries an annual interest of 9.65 percent is expected to create 5,300 new jobs attract $310 million in new investment and generate about $93 million in annual foreign exchange earnings and savings for India.6

The Asian Development Bank sanctioned yet another loan of $150 million for the north Madras power project designed to generate about 420 MW of power. This is the first Asian Development Bank loan for a power project in India.7 The Bank sources at Manila said there was possibility of a $55 million loan from the Asian Development Bank to improve handling of containers and fertilizers at Indian ports. The Indian Government has plans to build about ten fertilizers plant to be funded partially by the Asian Development Bank (ADB).8

The Asian Development Bank has also agreed to give credit worth $84 million for developing container facilities and strengthening infrastructure at the Bombay, Calcutta, Cochin and Madras ports. This is the first time that Asian Development Bank has given aid for port projects in India.9

6- Financial Express - April 4, 1986 New Delhi, p.1
7- Commerce W kly, December 13-19, 1986 Bombay p. 1136
8- Agricultural Situation in India -op.cit. New Delhi, p.99
9- Commerce Bombay, July 19, 1986, p.100
Further the confederation of Engineering Industry (CEI) has drawn up a comprehensive action plan for increasing India's participation in Asian Development Bank (ADB) assisted projects.

The Confederation proposes to do this sectoral company level missions to Asian Development Bank and member countries, visit of the Asian Development Bank mission to the Indian Engineering Trade Fair in February 1987 in New Delhi visits of projects authorities of Asian Development Bank member countries to India and updating commercial secretaries of Indian mission in Asian Development Bank member countries through periodic meetings. 10

According to a Confederation of Engineering Industry (CEI) release in 1985 the Asian Development Bank sanctioned loans worth $ 1908.06 millions for 46 projects of which India's share in terms of participation was of the order of $ 16.5 million.

India's contribution to Asian Development Bank is $ 147.7 million and therefore realisation through participation in the projects was nominal at 11.2 percent. 11

10- CEI Draws plans to bage more ADB aided projects, The Economic Times - New Delhi, Sept. 24, 1986
11- Ibid
The Asian Development Bank has also decided to examine India's suggestion that the Bank act as an "intermediary" through which large capital surpluses in Japan can be invested in developing countries.12

The loan and assistance provided by the Asian Development Bank can be easily gauged from Table No. given below.

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12- ADB to examine India's proposal
The Times of India- 30th April, 1987 New Delhi, p.14
### Table No. 4.1

Loan Approvals by Asian Development Bank  
1967 - 1986

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans from ordinary capital resources</th>
<th>Loans from special fund Reserves</th>
<th>Total Amount</th>
<th>Loan numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>41.600</td>
<td>41.600</td>
<td>$41.600</td>
<td>7</td>
</tr>
<tr>
<td>1969</td>
<td>76.095</td>
<td>22.005</td>
<td>98.100</td>
<td>20</td>
</tr>
<tr>
<td>1970</td>
<td>211.940</td>
<td>33.693</td>
<td>245.633</td>
<td>32</td>
</tr>
<tr>
<td>1971</td>
<td>202.520</td>
<td>51.510</td>
<td>254.030</td>
<td>28</td>
</tr>
<tr>
<td>1972</td>
<td>221.750</td>
<td>94.340</td>
<td>316.090</td>
<td>32</td>
</tr>
<tr>
<td>1973</td>
<td>303.320</td>
<td>118.160</td>
<td>421.480</td>
<td>54</td>
</tr>
<tr>
<td>1974</td>
<td>374.820</td>
<td>172.855</td>
<td>547.675</td>
<td>40</td>
</tr>
<tr>
<td>1975</td>
<td>494.05</td>
<td>166.26</td>
<td>660.31</td>
<td>41</td>
</tr>
<tr>
<td>1976</td>
<td>540.04</td>
<td>235.86</td>
<td>775.90</td>
<td>37</td>
</tr>
<tr>
<td>1977</td>
<td>614.05</td>
<td>271.80</td>
<td>886.45</td>
<td>45</td>
</tr>
<tr>
<td>1978</td>
<td>778.23</td>
<td>380.51</td>
<td>1158.74</td>
<td>53</td>
</tr>
<tr>
<td>1985</td>
<td>1271.00</td>
<td>637.00</td>
<td>1908.00</td>
<td>-</td>
</tr>
<tr>
<td>1986</td>
<td>1368.00</td>
<td>633.00</td>
<td>2001.00</td>
<td>-</td>
</tr>
</tbody>
</table>

The above table clearly reveals that lending commitments of the Asian Development Bank (ADB) crossed the $2 billion mark in 1986, rising to $2.01 billion compared to $1.908 billion in 1985. This slight increase during the 20th year of the Bank's operations was less than had been anticipated, reflecting high debts levels and budgetary constraints in some developing member countries (DMC'S) as well as generally low commodity prices worldwide, which depressed their export earnings. Other factors included the limited ability of some developing member countries to absorb external assistance efficiently and the cut back in planned investments in oil exporting developing member countries due to lower oil prices.\textsuperscript{13} The Asian Development Bank's (ADB's) loan from ordinary capital resources amounted to $1.368 billion a rise of 7.6 percent over the level of $1.271 billion in 1985. Loans from the Asian Development Fund (ADF) amounted to $633 million, fractionally less than the level of $637 million in 1985.\textsuperscript{14}

\textsuperscript{13} - \textit{The Times of India, New Delhi}, Apr 26-1987, p.1
\textsuperscript{14} - Ib. ib. p.1
During the past 20 years (1967-1986), the Asian Development Bank has approved loans to 746 projects for a total of $19.491 billion, ordinary loans were sanctioned to 453 projects totalling $13.317 billion and disbursement amounted to $6.092 billion. Besides Asian Development Fund (ADF) loans were granted for 371 projects the amount of loans being $6.175 billion and disbursements $2.384 billion. Equity investments were made in 11 projects, the amount being $15.2 million. Technical assistance was granted for 1,326 projects the assistance being $1.518 billion. 

During the 20 years of its operation the Asian Development Bank has become a major catalyst in promoting the development of the most populous and rapidly developing Asian countries. It has laid a solid foundation for systematic growth in its operational activities. Every dollar lent by the Asian Development Bank is matched with an average additional investment of about $1.5 by the borrowing countries and in certain cases by outside co-financers.

15- ADB lending crosses $2 billion mark, The Times of India- April, 20, New Delhi p.1

In an effort to promote regional economic growth and development the bank has conducted six major surveys namely - Asian Agricultural Survey, South East Asian Regional Transport Survey, Study of South East Asian Economy in the 1970's, Second Asian Agricultural Survey, South Pacific Agricultural Survey and Regional Energy Survey. These surveys have immensely benefited the Asian country in the formulation of major developmental plans and become instrumental to a large extent in accelerating the pace of economic development of their countries. The important projects which are collaborated and financed by the Asian Development Bank in the Asian region have already made an economic and social impact. For instance 78 irrigation projects and area development projects covering about 2.6 million hectares supports directly about two million families, which means the total population expected to benefit can be placed at about 11.7 million. A total of 103 projects for the creation of 7.61 million KW of generating capacity of which three quarters will be based on indigenous resources such as water, natural gas and lignite with a view to solve the pressing every problem.
The Asian Development Bank has supported housing schemes and other infrastructure facilities which will provide about 16,500 low cost houses and 30,000 low cost apartments, bettering the living conditions of every one million people.

Projects financed by the Asian Development Bank also include the development and improvements of both main roads and rural roads, rehabilitation and modernisation of ports and harbours, public utilities including electric power, gas, water supply and sewerage schemes, agriculture and fisheries, oil, expansion of telecommunication. Technical experts commissioned by the Bank have also been actively involved in formulating projects for financing by the Bank in studying specific economic problems of national and regional importance. The Bank has given substantial financial and technical assistance for the creation and development of necessary infrastructure in the Asian region.

Apart from providing financial loans to specific projects the Asian Development Bank also extends technical assistance to its member countries, their agencies, private firms etc. These technical
assistance provided by the Bank is designed to help in the preparation, financing and execution of development plans and projects include the consideration of priorities.

CONCLUSION:

The Asian Development Bank since its inception through its financial and technical assistance services has made a considerable contribution to the development of various countries of Asian region. During these 20 years (1967-1987) it has been able to gain the confidence of member countries and has justified its role as a regional development bank. Lending commitments of the Bank has crossed the $2 billion mark in 1986. It has been immensely helpful in the promotion and creation of infrastructural facilities in the region. Further the Bank also made feasibility studies in the Asian region. India being a founder and fourth largest contributor to the Bank's capital stock can hope to get more and more financial and technical help from the Bank. The total quantum of lending from the Asian Development Bank during the financial year 1986-87 (upto December 1986) was of the order of $250 million.17

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17- Foreign Trade Review- Quarterly Journal of Indian Institute of Foreign Trade, Jan.-March, 1987 New Delhi- p.466
Although India emerging as a new Asian Development Bank borrower was a matter of some concern to some of the non-regional members of the Bank but none opposed to the loans granted to India. However some countries like West Germany, France and Britain fully supported Asian Development Bank's lending to India. There was a general feeling that lending to India should be modest since some of the members recognized that the Asian Development Bank was sitting on a growing pool of funds which should be gainfully employed.

On her part India should also make some concrete and comprehensive plans and schemes through which she could obtain substantial financial and technical assistance from the Asian Development Bank so that it can be utilised in her major development efforts especially in the creation and building up a solid economic infrastructural base. Our Government and the private agencies having the responsibility of developing our economy on a sound line have not made very effective attempts to harness this potential source of finance for a sound installation of economic infrastructure in the country.

18- U.K., F.G.R., Bank ADB loan to India
The Times of India, April 29, 1987
Vol. D.1 i- p-14
There is a need to make efforts in this direction so that the undue pressure on a particular international agency, i.e. The World Bank for financing our infrastructural development can be lessened.