The African Development Bank's Role in Promoting Regional Integration in the Economic Community of West African States

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THE AFRICAN DEVELOPMENT BANK'S ROLE IN PROMOTING REGIONAL INTEGRATION IN THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES

CRAIG SCOTT BARNES*

INTRODUCTION ......................................................... 151

I. BACKGROUND OF THE AFRICAN DEVELOPMENT BANK .................. 152
   A. Impetus for Creating the African Development Bank .............. 152
   B. Issues Concerning the Creation of the African Development Bank 153

   A. Reliance on African Sources ...................................... 156
   B. Subscription Arrearages ......................................... 157
   C. Loan Ceilings .................................................. 158
   D. The Pursuit of Credibility ...................................... 158
   E. Erratic Disbursement Performance ................................ 161

III. ADJUSTMENTS BY THE AFRICAN DEVELOPMENT BANK — 1974-1979 ........ 163
   A. Access to Funds Outside Africa .................................. 163
   B. Internal Improvements .......................................... 165
   C. The Creation of the African Development Fund .................. 166
   D. The Creation of the Nigerian Trust Fund ....................... 168

IV. THE AFRICAN DEVELOPMENT BANK'S PERFORMANCE IN PROMOTING REGIONAL DEVELOPMENT IN WEST AFRICA ........................................ 170
   A. Early Studies on West African Multinational Projects .......... 170
   B. Establishment of the SIFIDA and the African-Re ................ 171
   C. Other Contributions to Regional Development .................... 172

CONCLUSION ............................................................ 175

APPENDIX I (Tables 1-7) ............................................... 176
APPENDIX II (Graphs I-VI) ............................................. 178

INTRODUCTION

In 1976, the Economic Community of West African States ["ECOWAS"] which is composed of fifteen countries, united to achieve lasting industrial development through a process of integration. The goals of the ECOWAS treaty emphasized the removal of barriers to the free flow of goods, services, and labor among the member countries as well as cooperative efforts in agriculture, industry, transportation, communications, and energy.

In an ideal economic community each member country benefits from positive

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"spread" — the increasing output and specialization of industry in the member country — which results from the larger market size of the community and the benefits of economy of scale. Nevertheless, the poorer countries in such a community often fear that regional integration will aid in developing the richer countries at the expense of the poorer ones.

One way to promote development in the poorer countries is to plan and finance the location and operation of new industry in these countries. While these activities are beyond the present capacity of the ECOWAS program, a regional development institution which is committed to investment in multinational and infrastructural projects in lesser-developed countries would advance regional integration and development. The success of the ECOWAS program largely depends upon such an institution. In the absence of international institutions which will provide enough capital for these activities, the African Development Bank has demonstrated a commitment to multinational and infrastructural development in West Africa.

Part I of this article will discuss the reasons why the African Development Bank was created. Parts II and III will describe the growth, problems, and adjustments that it has experienced in meeting its goals. Part IV will discuss its special role in promoting regional development in the ECOWAS countries.

I. BACKGROUND OF THE AFRICAN DEVELOPMENT BANK

A. Impetus for Creating the African Development Bank

The African Development Bank was born after the defeat of the proposed Special United Nations Fund for Economic Development ["SUNFED"]'). With the culmination of independence movements throughout Africa, many African leaders looked to the United Nations as the agency to take the lead in financing development projects and programs in Africa. The proposed fund was appealing to African and other Third World leaders, because, as a United Nations agency, the voting power of all members would have been equal. This feature provided a greater degree of influence for the Third World nations than they would have had in the World Bank, where voting power is contingent upon the volume of subscriptions that are drawn. By having equal voting power with their capital exporting country counterparts, African nations would have had a significant impact on the policy and investment decisions of the proposed United Nations fund. Despite the attractiveness of the United Nations proposal, the idea for creating a special fund for economic development was abandoned when the World Bank proposed the creation of a soft loan window for the International Bank for Reconstruction and Development ["IBRD"].

The proposed soft loan window for the IBRD was designed to provide concessionary aid to underdeveloped countries, offering loans at 0.75 percent interest and on a forty year amortization schedule. In spite of this low cost of financing, African leaders were not enthusiastic about the World Bank proposal. They did not perceive a strong commitment by the World Bank in addressing the needs of Africa, especially in view of the low level of World Bank financing in Africa. For example, in 1960-1961, Europe and Australia received more than twice the level of aid than the entire continent of Africa.² Moreover,

African nations had to forego the chance of acquiring equal voting power in SUNFED in favor of proportional representation based on the volume of subscriptions drawn at the World Bank. The combination of dissatisfaction with the World Bank proposal and the loss of SUNFED prompted African leaders to look toward establishing their own development bank.

The concept of a development bank wholly owned by African nations which would invest in African development was also consistent with the political climate in Africa during the late 1950s. With the recent trend toward independence came a strong sentiment for African unity and self-reliance. An African development bank that would invest in continent-wide development was a logical extension of this independence movement.

The idea of an African development bank was formally proposed at the All-African People's Conference in 1960 in Tunis. In proposing such a bank, the African leaders were not acting without precedent; they had their Latin American counterparts to use as a reference. A former official of the ADB pointed out that “it was no accident that the Tunis resolution was adopted just a month after the Agreement Establishing the Inter-American Development Bank entered into force.”

In an effort toward developing the Tunis resolution, the United Nations Economic Commission for Africa ("ECA"), in February, 1961, began to study the possibility of establishing an African development bank. The initial findings of the ECA were supportive of the creation of an African development bank. To investigate further the feasibility of establishing such an institution in Africa, the ECA appointed a committee, comprised of representatives from nine African nations, to canvass opinions in Africa and the international community. The responsibilities of the committee were:

a. to make all necessary governmental and other contacts relevant to the establishment of an African development bank;
b. to complete comprehensive studies into the financial and administrative structure of the proposed development bank and into the nature and extent of its operations;
c. to draft a charter for the proposed development bank; and
d. to make recommendations for its location.

Through their governmental contacts, the “Committee of Nine” was able to catalogue several vital issues concerning the creation of the African Development Bank ("ADB"). Upon completion of the feasibility studies, the “Committee of Nine” presented the following issues to the ECA.

B. Issues Concerning the Creation of the ADB

One of the most hotly debated issues among African countries concerning the structure and resource base of the ADB was whether membership should be open to non-African countries. A significant number of African countries opposed open membership because they feared that outsiders could dominate the ADB by subscribing a majority share of the ADB's capital stock. This concern was compounded by the bitterness that many Africans still felt towards their former colonial oppressors. The idea of inviting the former colonialists to participate in an African development institution shortly after gaining independence did not appeal to them.

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The African countries that favored open membership chose to look beyond the emotional aspects of the issue and emphasized the economic benefits of opening the capital stock of the ADB to non-African countries. The participation of non-African countries would provide an additional source of capital and would ease the burden on poor African subscribers. They believed that funding from poor nations alone would only serve to redistribute the limited resources of member countries. When questioned about the possibility of outside control, they argued that the ADB could be structured to insure that African nations maintained majority shares in the ADB.

The resolution of this controversial issue was a compromise between maintaining African ownership of the ADB5 and including the securing of additional capital as a function of the ADB. Securing additional resources meant obtaining funds from the capital exporting countries. Two problems became apparent. First, there was some concern that the receipt of funds from non-African, capital exporting countries would interrupt the flow of bilateral aid which the African countries received. This concern was expressed at the Khartoum meeting in 1963 on the establishment of the ADB when a representative from Mauritania advocated the insertion of the word 'additional' because a number of countries receiving bilateral aid wished to maintain such aid without it passing through the ADB.6 Second, the general response of the capital exporting countries to the ADB was cold. The non-African countries were uncomfortable about committing funds to an institution in which they were denied voting rights. They were also skeptical about investing in a new institution which lacked any record of performance. In light of this response, the issue of securing additional funds through the ADB should have been a moot point. Unless the capital stock was open to non-African nations, the African countries would be left as the sole source of capital for the ADB.

Another major controversy concerned the formula for representation on the ADB. This issue highlighted the differences between the large and small countries in Africa. The small resource-poor African countries were supportive of a one flag, one vote formula that would assure each member an equal share of votes. They were seeking an arrangement similar to that of the United Nations whereby the rights of smaller members are protected by assigning equal voting power to all. Another feature of their proposal which was similar to the United Nations structure was that capital subscription levels would be based on the ability of each member to pay, rather than on a strict minimum level. At the Khartoum meeting in 1963, small countries such as Gambia complained that the proposed minimum subscription level constituted twenty percent of that country's annual revenue and that the ADB should consider some other formula for assigning subscription levels.7 It is clear that setting subscription at levels that required twenty percent of a country's annual revenue would have prevented many smaller countries from joining the ADB.

The large resource-rich countries, such as Algeria and Nigeria, advocated a formula of proportional representation which would acknowledge the larger financial commitments of those countries. They reasoned that they would be more concerned about policy decisions than the smaller contributors because of their larger commitment to the ADB. Those that favored proportional representation were disturbed by the paranoia of the

5 Restricting the membership of the ADB to African countries was endorsed by the majority of African representatives at the Khartoum meeting in 1963 on the establishment of the ADB. African Development Bank — Agreement, U.N. Doc. E/CN. 14/FMAB/4/ADD 4-7, Comments and Proposals (1963) [hereinafter cited as Comments and Proposals].
6 Id.
7 Id.
smaller countries who feared that their position would be dominated by the larger members. The response of Algeria to the smaller countries' fear was expressed in the transcript of the Khartoum meeting:

Although Algeria's share allocation was relatively large, it was a very poor country; the large contribution represented a sacrifice and nothing more. The Bank was a joint venture based on faith in Africa's future. It could not go far if that faith was lacking. Hence there ought to be no fear that one country or group of countries would dominate the Bank.8

Relying on mutual trust was not a convincing argument to the representatives of the small countries. The reasoning of a one flag, one vote system for all members as a means to insure fair representation was attractive, but without some form of proportional representation there was little impetus for resource-rich members to subscribe more than the minimum level of subscriptions. As a compromise resolution, the following formula was agreed upon in the ADB's charter: "Article 35 (1) Each member shall have 625 votes and, in addition, one vote for each share of the capital stock of the Bank held by that member."9

Under this arrangement, the large contributors to the ADB were able to secure greater voting power than under a one flag, one vote system, but their degree of power was not as great as it would have been under their proposal for proportional representation. With minimum subscriptions set at US$1,000,000 and maximum subscriptions set at US$30,000,000, a member with the minimum level of subscriptions would have 725 votes, while a member with the maximum level would have 3,625 votes. Under this formula, the larger subscriber would have five times the voting power even though its subscriptions were thirty times greater.10 This system of representation provided for a more equitable position between the large and small members while allowing the large members to make sizable contributions to the ADB.

The tension between the large resource-rich countries and the small resource-poor countries highlighted the potentially disintegrative influence of imbalance among countries within the African community. The neo-classical economic perspective on regional integration would view the wide disparities between poor countries, such as Gambia, and rich countries, such as Nigeria, as a major obstacle to regional integration. When financial obligations are placed too heavily upon the poorer countries, the cooperative effort of the community can fail. The balancing formula of Article 35 helped ease the financial pressures on the smaller countries and calmed their fears of being dominated by the richer countries. Article 35 effectively dealt with the destructive potential of imbalances between countries, while permitting the positive force of the "prime movers" on the continent to invest in the growth of the ADB.11

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8 Id.
11 The concept of "prime movers" in an integration effort or a regionally based cooperative venture, such as the ADB, suggests that large political and economic powers within the African community are needed to lead the smaller countries. The basis for this concept is that large financial investments, fueled by a strong political will, are needed to develop the necessary infrastructure and institutions of a regional community. The ADB, as a continental institution, requires a large capital base to function as a development bank. Based upon the concept of "prime movers" this support
A final area of contention among African member countries concerned the scope of the ADB's operations. Countries such as Mauritania proposed that the ADB's operations be limited to multinational projects that aided regional development. The Mauritanian position was that national projects could be funded by national banks and bilateral aid, while the ADB could be the lead agency in regional and interstate development. Island countries, such as Madagascar, Mauritius, and the Comoros Islands, were naturally opposed to a multinational focus and insisted on a broader investment perspective for the ADB. In an effort to include a preference for projects that advanced regional development and did not preclude the possibility of national projects, the African member countries agreed on Article 2 which states: "Special priority will be given to projects or programmes which by their nature or scope concern several members and are designed to make their economies increasingly complementary and to bring about an orderly expansion of their foreign trade." Article 2 provided the ADB latitude in choosing national and multinational projects, although it did indicate a preference for regional development.

II. Problems of Operating the ADB — The Early Years 1967-1973

A. Reliance on African Sources

The ADB was established in 1967, three years after the ratification of the agreement to establish the ADB. During the years between 1967 and 1973, the ADB experienced problems in meeting the goals of the African member countries. These problems were the result of the inadequate capital base, the high level of arrears on paid-in capital, the low loan ceiling, the lack of creditworthiness, and the delays in the commitment and disbursement of loans.

The ADB's operations between 1967 and 1973 were constrained by its inadequate capital base. The capital stock of the ADB was limited to the subscriptions of countries that were underdeveloped and least able to pay their share of subscriptions. The ADB’s subscriptions were divided equally into paid-in shares and callable shares, with 125m units of account for paid-in and callable shares, a unit of account ["UA"] being equivalent to US$1. Dividing the subscriptions into paid-in and callable shares placed the ADB in the position of operating on the limited amount of dollars provided by the paid-in capital. The only other potential source of ready capital was the borrowings from the central banks of member countries.

The ADB conducted its investment operations from 1967 to 1974 solely on its paid-in...
capital. Not until 1974 did the ADB support its operations through borrowings from the central banks of its member countries. With such limited resources at its disposal, the ADB invested only US$119,500,000 in its first six years of operations.\(^\text{16}\) Operating a development bank using only the paid-in capital of subscribers is unusual. Many of the international lending agencies, such as the IBRD, the Inter-American Development Bank ["IDB"], and the Asian Development Bank ["ASDB"], fund their operations principally from borrowed resources while holding back on the disbursement of paid-in capital. Conducting lending operations on borrowed money helps to ease the pressure on subscribers. The ability of these international institutions to secure borrowings in the marketplace is a result of the strength of their callable capital.\(^\text{17}\) These institutions can back up their commitments with the obligation of their members to produce the called capital should the institution require it. Given the questionable standing of the ADB's callable capital, the ADB lacked the creditworthiness in the international market enjoyed by its counterparts in Asia, Latin America, and the United States.

Other development institutions could support their creditworthiness with the financial strength of their members. The members of those institutions include the capital exporting countries, whose ability to produce callable capital is acknowledged in the international market. The ADB is totally comprised of underdeveloped countries whose individual creditworthiness is among the poorest in the world. The consolidation of their resources did not improve their creditworthiness in the international market. The consequence of the ADB's poor credit standing and its subsequent reliance on the paid-in capital was that the poor were forced to aid the poorer. This was similar to the special funds used by the Communauté économique de l'Afrique de l'Ouest (West African Economic Community) ["CEAO"], the Entente Council, and the ECOWAS who depend on the relatively wealthy countries to make large contributions to redistribution funds designed to balance gains in the region. As evidenced by the special funds, the reliance by the ADB on paid-in contributions from its member countries results in insufficient capital to meet the task of investing in African development. Despite the relatively large subscriptions of countries like Nigeria, Algeria, and Libya, the modest size of the paid-in capital limits the investment capability of the ADB, in addition to discouraging outside lenders. This problem was exacerbated by the poor performance of member countries in meeting their paid-in capital commitments.

B. Subscription Arrearages

The credit standing of a development bank based on the strength of its callable capital is usually evaluated by assessing the economic solvency of its membership. To determine the economic strength of a development bank by measuring its paid-in capital, one should look at the ability of its members to meet their obligations. By 1971, the ADB's percentage of arrears to callable capital was 26.17 percent, with the assigned level of paid-in capital set at 110.2m units of account.\(^\text{18}\) In view of the modest size of the paid-in capital required of the member countries, the high percentage of arrears indicated the weak economic standing or the lack of commitment of the ADB's members. With the small size of the ADB's paid-in capital and the high level of arrears on paid-in capital,


\(^{17}\) Ebong, supra note 3, at 81.

there was little possibility of the ADB operating on borrowed monies. The lack of access to the international markets prevented the ADB from performing one of its missions effectively: the attraction of additional resources to Africa. While operating on a short supply of funds, the ADB had to develop policies that would make the best use of its resources while enhancing the ADB's standing with outside lenders and donors.

C. Loan Ceilings

One policy designed by the ADB to conserve resources was the setting of loan ceilings for multinational and national projects. The loan ceiling policy, as stated by the ADB in 1967 was as follows:

In its initial period of operations, while its resources are dependent upon the continued payment of member countries of their scheduled subscriptions to the paid-up portion of the capital, the Bank will not be in a position to grant large loans. Therefore an upper limit of approximately $8 million has been set for multinational projects and one of $3 million for national projects. . . .

The ADB was relegated to financing small projects or small portions of large projects because the loan ceiling prevented it from considering a wide range of development projects. This situation placed the ADB in the role of junior partner in projects in which they were cofinanciers. The loan ceiling also precluded the ADB from considering many multinational projects. From 1967 until 1973, when the loan ceiling was eight million dollars, the ADB made only three direct loans to multinational projects and extended one line of credit to a regional organization bank.

The ADB also had to absorb high administrative costs because of the loan ceiling. Small loans tend to incur greater administrative costs than larger loans. Larger sums of money committed to a project provide more revenue to the lending agency with which to cover its administrative overhead. When a project is small the revenue from the investment has to be stretched further to cover expenses. Since the cost of processing and implementing a loan is generally the same for large and small loans, a cost savings is realized from the volume of revenue obtained from larger loans. As shown in Table 1, during the last three years of the 1967 loan ceiling, the ADB's ratio of loan commitments to administrative costs was high compared to the IBRD and the Commonwealth Development Corporation ["CDC"]. These high administrative costs were also partially the result of the ADB's slow "take-off," its limited resource base, and the small size of its operations.

D. The Pursuit of Credibility

The small size of the ADB's operations and its limited resource base had an impact on the ADB's policies concerning project selection. The project selection criteria for the ADB was to include projects and programs that "contribute to the economic development and

19 African Development Bank, Loans and Investments 9 (1967) [hereinafter cited as Loans and Investments].
social progress of its members — jointly and individually.”

Although the term “social progress” is not defined, it appears to include projects where the social value overrides economic productivity. If this is actually the spirit of the term, its use in project selection decisions was not apparent. The ADB’s policy of removing projects which were “social” in nature from its selection of potential projects was a result of its poor credit standing.

In order to convince the international market that it was creditworthy, the ADB planned to demonstrate wisdom in its investments by using sound banking criteria in its project selection. This approach appears to have been influenced by the “Committee of Nine’s” conclusion that the capital exporting countries wanted to observe the ADB’s performance before committing any funds to its operations. The decision to direct loans to “bankable” projects may have been a sound strategy for attracting outside funds for the ADB, but the policy altered the original understanding of the ADB’s purpose.

Although there is no exact definition of what constitutes a “bankable” project, the term usually refers to projects that have good prospects for a profitable return. The ADB chose not to fund social projects relating to housing, hospitals, and rural water supply because of the low rate of profitability. The ADB reasoned that it needed “soft loan money” to fund these types of projects. The ADB visualized the forming of a special fund, the African Development Fund ("ADF"), which would serve as a soft loan window for the ADB, much like the International Development Association ("IDA") does for the IBRD.

In order to insure that projects showed a profitable return, the ADB focused its investments in national projects in the member countries with the strongest economies. During the first seven years of the ADB’s operations, the countries with the strongest economies, namely, Nigeria, Ivory Coast, Algeria, and Kenya, received the largest volume of loan commitments in their regions. These countries were also favored by the ADB requirement that the host country of a project invest “approximately 50% of the cost of the project” as a condition for receiving a loan. This clause of the ADB loan policy prevented several of the poorer members from considering ADB loans.

The policies favoring the wealthier countries may have provided the ADB with a solid record of “bankable” projects, but they did not necessarily make the economies of member countries more complementary nor did they produce regional development. The disintegrative effect of imbalances between countries can occur in a laissez-faire economic union which fails to account for growing disparities between the countries. "Backwash" is one of the problems confronted by regional economic communities that try to balance gains between the countries. The ADB’s first seven years of investment exacerbated “backwash” by diverting funds to the wealthier countries.

“Backwash” is the tendency of capital development activity to be centered in regional growth poles. These growth poles are typically found in the wealthier countries of the region where there is an infrastructure that makes development possible. The tendency of capital to concentrate in the wealthier countries turns the poorer countries into “backwaters.” As a result, poorer countries eventually break away from the regional community and attempt to develop their own industrial centers behind the protection of their national boundaries. Direct investments need to be made in the poorer countries in order to avoid this outcome. The CEAO, the Entente Council, and the ECOWAS use

22 LOANS AND INVESTMENTS, supra note 19, at 7.
23 Id.
24 EBONG, supra note 3, at 131.
25 LOANS AND INVESTMENTS, supra note 19, at 13.
their special funds to initiate regional investment in poorer countries, but their special funds are undercapitalized. Without such funds, the poorer countries must look toward foreign aid and the ADB to make the necessary investments to remedy the problems of “backwash.”

The ADB’s concentration of investments in the wealthier African countries during its first seven years heightened and accelerated the problems of “backwash.” Without any investment from the ADB, local and foreign investors tended to channel their monies into projects within the growth poles. This disintegrative effect was compounded by the small number of multinational projects that were funded by the ADB. Additional investments in multinational projects may have mitigated the disparities between the member countries.

In defense of the ADB’s inactivity in funding multinational projects during the first loan ceiling period, there were only a small number of regional authorities or organizations that could oversee the management of regional projects. A regional body serves as a conduit for loans and coordinates the arrangements between its member countries, such as which country will receive the loan, who will guarantee the loan, who will manage the project, how rights of access will be decided, and which country will absorb the costs. The absence of regional bodies in West Africa during the first loan ceiling period indicates a lack of institutional support for the ADB in financing multinational projects. Although approximately twenty-six organizations now exist in West Africa, eighteen of them were formed in 1970 or thereafter. By 1973, all loans by the ADB to multinational projects were made to regional entities.

The ADB was also under greater pressure from member countries to fund national projects than to fund multinational projects. Each country believed that if it must pay a certain amount in subscriptions, it should receive a commensurate amount in loans. The member countries preferred national projects because they could maintain political control over the projects and realize all of the benefits. The political pressure on the ADB to award its loans to its members, rather than to good projects, diverted the ADB from projects that were not geographically bound.

An extension of the need for national projects and political control is the reluctance of national political leaders to concede any power to a regional body. National political leaders tend to be uncomfortable with conceding power to an outside authority. This uneasiness is more apparent in those leaders who must deal with internal political instability or who govern from a weak political base. Multinational projects that require interstate authorities to administer and control the project are not viewed favorably by the national leadership.

The fears of these national leaders are compounded by the volatility of national leadership within the nations of Africa. National leaders tend to be cautious when making interstate agreements because, in light of the numerous coups and attempted coups in Africa, they are aware that an agreement made between heads of state can quickly be undermined by a radical change in leadership. For this reason, some national leaders avoid multinational projects that require regional authorities.

One way to overcome the concern that regional coordination can be destroyed is to establish regional cooperation and to show the success of its operations. The ADB could

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26 There is no guarantee, however, that the ADB would have diverted money from national projects to finance multinational projects.
take the lead in assisting African countries in forming regional authorities to ease the pressure for national investments. Another strategy that the ADB could use to ease this pressure would be to shift the ADB's reliance on capital away from the member countries and to expand its resource base by securing additional funds.

Besides the bias of member countries for national projects and the lack of institutional support for multinational projects, the ADB was also apprehensive about committing a large sum of its limited capital to a small number of projects. If a few larger multinational projects had failed, the ADB would have been faced with heavy losses which would have further eroded its credibility as an investment institution. By 1972, both the IBRD and the IDA had committed worldwide only 1.9 percent of their total financing to multinational projects or programs. 29 Without other investors contributing to multinational projects, the ADB could not invest in a multinational project without assuming the total cost.

E. Erratic Disbursement Performance

In its early years, delays in processing and disbursements of loans plagued the ADB. This indicator is important in assessing an investment institution's performance in financing projects because it reflects the ability of the institution to respond to proposed projects and to release its funds quickly. Compared to other major lenders, the poor performance of the ADB in its early years is clearly shown in Table 2. In later years, the ADB began to improve the percentage of loans committed per year that were actually disbursed.

The difficulty that the ADB experienced in disbursing its loans can be attributed to a slow start-up period during its first four years of operations. Comparing the disbursement data of the ADB, the IBRD, and the CDC in Table 2 could be misleading, because the IBRD and the CDC operated on a worldwide scale while the ADB operated only in Africa. Yet, the ADB's success in disbursing funds in Africa was not competitive with the IBRD and the CDC.

A problem related to slow disbursements is the difficulty the ADB has had in committing its capital to actual development projects. Much of the ADB's capital stock has been invested in time deposits rather than in development projects. This practice does not encourage member countries to meet their paid-in capital commitments. Member countries rightfully question the need for additional capital for operations when such a large portion of capital is not invested in development projects. An indicator of the ADB's inability to commit its capital to development projects is the rate of income that it realizes from investments. Most development agencies that are able to commit their capital to projects tend to have a low rate of profit, whereas the ADB's rate has been consistently high. By 1975, the ADB's profit rate had reached 37.5 percent, while the CDC had a profit rate of only 2.1 percent. 30 The 1969 ADB Annual Report attempted to explain the high rate of profit as follows: "It may be pointed out that the substantial increase in income of 59.7% is the result of the exceptionally high rates offered for the funds not utilized for operational purposes and placed on time deposit."31

The problem of not being able to commit its capital to development projects was most serious in the ADB's first four years of operation. The total number of loan projects was

29 EBONG, supra note 3, at 133.
only twenty-four during these four years.\textsuperscript{32} The following three years reflected a sharp increase in the number of projects funded by the ADB, with the cumulative number of loan projects reaching fifty-three in 1973.\textsuperscript{33} Fifty-three loan projects in seven years of operation is not a handsome number of investments and appears to be an illusory indicator of progress when compared to the volume of loan commitments by other lending agencies. Overall, the ADB's ability to commit more of its capital stock to projects during its first seven years was poor.

In summarizing the performance of the ADB's first seven years of activity, the most fundamental constraint on its operations was its limited resource base. The lending operations of the ADB were funded entirely from the paid-in capital of its subscribers. This process of funding the ADB's activities created a situation where the ADB merely served as a facilitator in redistributing a small amount of capital among its members. The limited size of the capital stock forced the ADB to conserve capital and to narrow the scope of its projects to those that were "bankable" and within the loan ceiling.

The small size of the loan projects that the ADB funded in its early years produced high administrative costs. The ADB may have actually been top-heavy as an agency, but the consistent decline of the disbursement to administrative cost ratio seems to reflect a greater efficiency of output rather than an excess of staff. An additional effect of the small loan size was the diversion of a high volume of loans to the wealthier member countries. This diversion of loans was contrary to the founding spirit of the ADB which was to make member countries' economies more complementary and to advance regional development.

Another product of the small loan size was the ADB's emphasis on national projects. The political pressure on the ADB to commit itself to many national projects impaired its ability to invest in more than a few multinational projects. The ADB was further inhibited from funding additional multinational projects because of the lack of regional bodies to receive loans and to manage projects. The absence of cofinancers for multinational projects also constricted the ADB's activity in this area.

The ADB also had a poor history of committing and disbursing its funds. The inability of the ADB to commit significant portions of its capital to development projects sent discouraging signals to its subscribers and to potential outside lenders. This problem was exacerbated by the ADB's poor performance in disbursing loans to projects. The loan commitments to disbursements ratio improved for the ADB in the latter part of its first seven years of activity, but the ADB's performance was not comparable to the other investment institutions which were lending in Africa. As a result, the African countries did not view the ADB loans to be as reliable as those offered by the IBRD and the CDC. This perception further weakened the credibility of the ADB.

In spite of all these setbacks and constraints, the ADB consistently expanded its lending activity. By 1973, the ADB had more than doubled its total number of loan projects from the number attained in 1971. The increased number of loans committed and its consistent improvement in disbursing funds indicated that the ADB would be able to survive as a lending institution.


\textsuperscript{33} \textit{Id.}
III. Adjustments by the ADB — 1974-1979

A. Access to Funds Outside Africa

The issue of whether to open the ADB's capital stock to non-African countries continued to be debated through the difficult years of its start-up period. The topic was too politically and emotionally controversial for an objective debate on the merits. By 1974, the question of opening the capital stock had not yet been decided. The ADB's Board of Governors still were not in favor of the proposal. It was obvious at this point that one of the ADB's fundamental problems in functioning as a development bank was its reliance on paid-in capital to cover its operations. In 1974, the ADB began to supplement its operations through borrowings from the central banks of its members. These loans, however, did not provide additional funds for Africa. Borrowing from the central banks of member countries merely reinforced the ADB's role in redistributing resources throughout Africa. In 1975, the ADB finally obtained additional funds when it secured a US$65,000,000 loan from a syndicate of United States banks.34

With access to borrowed money on the international market, the ADB could begin to expand its operations in addition to holding back on the use of its paid-in capital. This feature would ease the strain on subscribers and lessen the political pressure on the ADB from member countries. It is not clear how the ADB was able to gain the confidence of outside lenders, although one factor may have been its improved record of clearing up subscribers' arrearages.

Other institutions, such as the IBRD, the IDB, and the ASDB are able to secure borrowings on the international market based on the strength of their callable capital. In the IBRD, the callable capital since 1974 has been nine times larger than the amount of paid-in capital.35 The IBRD's maintenance of such a large proportion of capital in relation to paid-in capital and its use of large sums of money borrowed on the international market reflect the deep faith that investors have in the strength of the IBRD's subscribers. The ADB does not enjoy that degree of faith from foreign investors. The ADB's callable capital to paid-in capital ratio up until 1975 was one to one, with a paid-in amount of UA 193.93m [US$217.69m].36 The ADB could not gain the confidence of potential foreign investors with such a ratio. By 1975, the ADB's improved record of meeting its paid-in capital schedule may have given the lenders a sense of relative security. The ADB's summary statistics on arrearages through 1975 are shown in Table 3.

The level of arrearages in relation to paid-in capital declined substantially between 1972 and 1974. A higher proportion of subscribers meeting the paid-in capital schedules reflected a stronger commitment by the member countries to keep the ADB solvent and operating. The size of the ADB's subscriptions had also grown over the years. Whether the increased size of the subscriptions was caused by an individual member drawing more subscriptions from the ADB, as Nigeria has done, or by the Board of Governors raising the subscription levels for all members, or by the addition of new member countries, the increase in paid-in capital broadened the ADB's operations and reassured skeptical

34 AFRICAN DEVELOPMENT BANK, 1975 ANNUAL REPORT 30 (1976).
foreign investors. As the ADB continued to increase its subscription levels and decrease its arrearages after 1975, its access to foreign credit became easier.

Policy changes by the ADB may have also enhanced its position as a borrower in foreign markets. In 1976, the ADB decided to increase the ratio of callable capital to paid-in capital. In 1979, the ratio had grown to three to one and, as a result, access to foreign lenders became even easier. The President of the ADB from 1977 to 1979, Kwame Donkoh Fordwor, explained the policy as follows:

The callable capital is intended in effect to be the owners' guarantee of the bank's indebtedness. As such, its exploitation in the operations of the bank is more than an invitation to outsiders to share the owners' faith in their willingness and ability to pay for that amount of debt on the evil day -- which, with good management, would never come — when the bank might have to close its doors because of insolvency . . . . It was in this spirit that I decided — with some temerity — that this ratio was too high. If we lowered it, there would be a larger margin of callable capital on the faith of which we could borrow more. All it needed was faith on the part of the available lenders, and that would largely depend on outsiders.37

The ADB's access to outside credit almost doubled between 1977 and 1979. This was partly a result of the ADB's success in floating bonds in Kuwait in 1976, and its first issuance of bonds in the Eurobond market. The increase in foreign loans and paid-in subscriptions helped to address one of the ADB's earlier problems: limited sources of capital. Entering into the bond market also allowed the ADB to operate more on borrowed money than on paid-in capital. In addition to easing pressure on subscribers, the ADB's increased resource base made it possible for it to raise the loan ceiling from US$4,000,000 in 1973 for national projects to US$8,000,000 in 1979. Table 4 shows the ADB's improved resource base.

The radical increase in the ADB's resource base did not solve its resource problems. The loans to the ADB from non-African sources were still quite modest when compared to those of the IBRD, as shown in Graph I. The additional sources of funds, however, have allowed the ADB to make progressive changes in its operations.

The ADB has begun preliminary inquiries into the possibility of opening the capital stock to non-African countries.38 This would increase the paid-in capital through the subscriptions drawn by the non-regional members. The presence of capital exporting countries in the ADB's membership would also enhance the credibility of its callable capital. With an ability to secure credit like that of the IBRD, the IDB, or the ASDB, the ADB would move closer to being able to finance its lending operations primarily from borrowed funds, as the IBRD did in 1981.39 Allowing non-regional members into the ADB would alter the all-African composition of its membership, but in 1978 the Board of Governors stipulated that any formula for opening the capital stock must preserve the African character of the ADB in its leadership, operations, and voting power.40

The Board of Governors' resolution in 1978,41 which showed a willingness to open the ADB's capital stock, may have contributed to the ADB's successful efforts to enter the

38 Id. at 85.
40 Fordwor, supra note 37, at 121-22 (ADB, Board of Governors, Resolution 02-78 adopted at the closed sitting on May 1, 1978).
41 Id.
Eurobond market in the following year. Once the ADB entered the Eurobond market, there was a strong possibility of reentering it or eventually entering the Japanese bond market. This new access began to display positive effects on the loan operations of the ADB.

Between 1974 and 1979, the annual number of projects to which the ADB was committed increased steadily from twenty-five in 1974 to thirty-five in 1979. But the more important statistic was the average size of loans that the ADB made to projects during this period of time. Table 5 indicates the increasing size of the ADB loans to projects in the six-year period from 1974 to 1979.

The increase in the percentage of the total cost of projects that the ADB funded also reflects the larger development role of the ADB. The ADB's share of the total cost of projects rose from nineteen percent in 1978 to twenty-one percent in 1979, showing increased participation as a cofinancer in development projects. During the last six years of operation, the ADB has also been able to substantially lower its administrative costs in relation to commitments and disbursements, to increase the amount of capital going to development projects, and improved its record on the disbursement of funds.

B. Internal Improvements

The ADB continued to maintain a much higher level of costs for operations than many of the other development institutions operating in Africa. This does not seem to be solely because the ADB was restricted to small projects, since the Arab Bank for Economic Development in Africa ["BADEA"] and the Kuwait Fund for Arab Economic Development have also taken on small projects and emerged with lower administrative costs. The ADB appeared to be administratively top-heavy, with its staff increasing from 258 in 1974 to 606 in 1979. The sharp decreases in the ADB's administrative costs in relation to loan commitments and disbursements, despite the dramatic increase in staff, would seem to be a result of the ADB's improved loan efficiency and the expanded scope of its loan activity. Although the decline in these costs are encouraging, the comparably high levels maintained by the ADB, as shown in Graphs II and III, show a level of inefficiency that may be counterproductive.

The ADB also committed an increasing percentage of its capital to development projects. By comparing the ratio of the ADB's development portfolio to its total revenue, it is clear that the ADB began to receive a larger portion of its revenue from its projects. In 1979, 85.36 percent of ADB's total revenue came from its development activity. Another indication of the ADB's increased commitment to investing its capital in projects is the ADB's falling profit rate. In 1975, the ADB realized a profit rate of 37.5 percent; by 1979, the profit rate fell to 12.3 percent. With a major portion of the ADB's capital used for development purposes, the ADB was able to improve its credibility with subscribers and potential lenders.

Another area where the ADB upgraded its operations was the disbursement of loans committed to projects. The development institution with the best disbursement record for those operating in Africa during this period was the CDC, which consistently had a ratio of sixty to seventy percent of disbursements to loans. It should be pointed out, however, that most of the CDC's investments were through loans or equity participation in continu-

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43 Johnson, supra note 30.
44 Id.
The ADB's disbursement record, after an erratic beginning in 1967 through 1974, has in recent years become almost equal to that of the IBRD. The disbursement figures for the IBRD and the ADB from 1971 to 1979 are shown in Table 6.

The ADB has established a general consistency in its disbursements which, like the IBRD, is approximately forty-five percent of loans disbursed per year. The ADB's real success, however, goes beyond administrative improvements in the commitment and disbursement of loans. The creation of the ADB's two soft loan windows, the African Development Fund ["ADF"] and the Nigerian Trust Fund ["NTF"], demonstrates the ADB's growth and maturity.

C. The Creation of the ADF

When the ADB began its operations in 1967, it was reluctant to invest in projects in the least-developed member countries. The reason for the ADB's reluctance was: "That for the time being the Bank should not make any loans from its own capital resources to countries which are not good risks, that it should invest its resources in bankable projects in creditworthy countries..." An alternative plan to benefit the poorer member countries was to establish a special fund, with contributions from non-African countries, that would provide long-term loans on concessional terms.

The ADB was actually eager to erect a soft loan window, similar to the IDA within the IBRD, that would supplement ADB loans with concessionary financing. This arrangement would allow the ADB to mix its conventional financing with soft loan money in order to provide better terms on ADB loans. Underlying the ADB's efforts to develop a soft loan window for mixing loans was the problem that the ADB was unable to fund many infrastructure portions of development projects as a result of their low profitability potential. Financing these foundation-laying activities was often essential for the successful completion of commercial projects. To finance the infrastructure segment of larger commercial projects, the ADB needed a soft loan window that could provide concessionary financing.

In 1974, the ADB was finally able to attract enough foreign support for a soft loan window. The ADF, the second member of the ADB group, was inaugurated as a development fund in 1974 with total subscriptions equaling UA80,659,050 [US$97,303,045]. The ADF was designed to be a multilateral fund that "would receive contributions in the form of grants and not loans." The ADF was supported by subscriptions from the ADB and fourteen non-African countries. Although the operating capital of the ADF was less than the ADB's original goal of UA130m, the ADF was able to begin operations quickly in 1974.

The Board of Directors of the ADF is mainly composed of foreign nationals, al-


46 The year of 1979 was the exception. The sudden increase in the volume of loans between 1978 and 1979 may have been responsible for the sudden decline in the ADB's disbursement record.


48 Ebong, supra note 3, at 63.


50 Ebong, supra note 3, at 63.
though the ADB maintains a fifty percent interest in the ADF, and the President of the ADB serves as the Chairman of the Board. The ADF has a staff that appraises, processes, and implements its loans. This staff has a number of foreign nationals who provide technical assistance. Much of the staff's work was simplified because of the experience the ADB had in selecting projects and processing loans. With the assistance of the ADB, the ADF immediately started making loans on concessionary terms. Approximately eighty percent of the ADF's loans went to the least-developed countries in Africa.

The eligibility criteria for the ADF loans were separated into three levels of priority. All member countries were eligible to receive ADF loans, but the highest priority was given to member countries with per capita incomes that were equal to or below US$280. The next level of eligibility was countries with per capita income levels between US$281 and US$550. The final level of eligibility included those countries that either renounced their rights to benefit from the ADF or whose per capita income was above US$550.

The ADB's concentration of investments in the relatively wealthy countries increased the regional imbalances between countries by fueling the process of "backwash." The creation of the ADF offered a promise of counteracting this trend. This hope was supported by the 1974 investment portfolio of the ADF, which showed eighty percent of its investments going to the least-developed countries in Africa. With the investments of the ADF directed to the poorer countries, the ADB investments were beginning to become balanced between the rich and the poor countries. Nevertheless, the balancing of investment did not fully address the problems caused by "backwash."

The reason why investments tend to be concentrated in the growth pole areas is primarily attributable to the existing industrial activity and the developed infrastructure and amenities. The strategy for shifting investments away from the growth poles and toward the "backwaters" is to develop the infrastructure and amenities of such an area, in addition to investing in new industries. The ADF is designed to make investments in infrastructure projects, but it is limited to making these investments in social projects. Social projects include the development of hospitals, housing, water supplies, schools, roads, and other types of infrastructure projects. These types of loans by the ADF help in the fight against "backwash" to the extent that infrastructure and area amenities for industry are developed. The scope of the ADF's investments include the development of the necessary infrastructure that must exist to support industrialization. Without the power to invest in new industrial development in the poorer countries, however, the ADF is unable to fully address the problem of industrial imbalances between the rich and poor countries. One of the ADB's strategies for overcoming this problem is to increase the cofinancing activity between the ADF and the ADB in the area of multinational projects. This strategy does not address the need for national project financing of new industries in the poorer countries. Nevertheless, there is an impact on the problem of industrial imbalances between countries when these cofinanced multinational projects are industry-related and include the poorer countries.

Despite the ADF's laudable goals in investing in the poorer countries, the ADF experienced difficulties because of its limited available capital. In 1974, the ADF issued loans for seventeen projects or studies with an average loan size of US$2,740,000. In 1979, the ADF operations had expanded to the point that it issued loans to twenty-three

51 Id. at 76.
52 AFRICAN DEVELOPMENT BANK, 1979 ANNUAL REPORT, LENDING POLICY 5 (1980) [hereinafter cited as LENDING POLICY].
projects or studies, with an average loan size of US$10,770,000.\textsuperscript{53} This surpassed the average size of an ADB loan by almost US$2,000,000. With the ADF issuing loans at 0.75 percent interest and with fifty years maturity,\textsuperscript{54} the ADF was not going to recoup its investments from project revenues. Moreover, in 1974, the ADF committed US$42,000,000 to projects and studies, which was more than half of its subscribed capital. The ADF thus experienced difficulty meeting its replenishment needs. It needed injections of additional capital from subscribers or the inclusion of new subscribers.

The ADF also had difficulty in obtaining firm commitments from its subscribers to contribute additional capital. Commitments to the ADF could not be made by the representatives of the individual countries. Contributions had to be approved by the legislature, the head of state, or the finance minister of the member countries.

One of the factors that aided the ADF in increasing its capital was the admission of new members and grants from donor countries. By 1979, the membership to the ADF had increased to twenty-two, with new subscribers bringing in UA136.2m.\textsuperscript{55} Although the ADF consistently faced problems in meeting its replenishment goals, its loan operations increased appreciably within its first six years of lending activity. Table 7 illustrates the rapid expansion of the ADF's operations between 1974 and 1979.

The ADF, like the ADB, also experienced administrative problems. As indicated in Graph II, the ADF has maintained exceptionally high administrative costs to disbursements ratios. The administrative top-heaviness, slow start-up time, and the initial small size of its loans\textsuperscript{56} are the probable causes for these ratios. While it is encouraging to see the costs declining rapidly, the continued high level of costs hurts the ADF. The strong record of the ADF on the ratio of its administrative costs to commitments, as shown in Graph III, can probably be attributed to the relatively high amount of units of account committed by the ADF each year.

The administrative costs of the ADF, although high, are not the ADF's sole problem as a lending institution. Graph IV shows the disbursement record of several development institutions operating in Africa between 1971 and 1979, and it shows that the ADF has maintained the worst record of disbursement of its loans. It should be noted, however, that the ADF has shown a steady improvement in its disbursements of loans.

D. The Creation of the Nigerian Trust Fund

Graph IV also shows the performance of the Nigerian Trust Fund ["NTF"], which is another soft loan window of the ADB. The NTF, the third member of the ADB Group, was established in 1976 by the ADB and the Federal Military Government of Nigeria with an initial capital stock of fifty million naira from Nigeria.\textsuperscript{57} The NTF was designed to provide financing on concessionary terms, but not at the low levels provided by the ADF (NTF loans were to be granted at four percent with maturity periods of up to twenty-five years, including a five year grace period).\textsuperscript{58} Preference was to be given to non-profit

\textsuperscript{53} Id.
\textsuperscript{54} LENDING POLICY, supra note 52, at 6. The maturity on studies and lines of credit is ten years.
\textsuperscript{55} AFRICAN DEVELOPMENT BANK, 1979 ANNUAL REPORT ANNEX III 6 (1980).
\textsuperscript{56} The ADF loan ceiling has grown to UA8,000,000 for national projects and UA12,000,000 for multinational projects. LENDING POLICY, supra note 51, at 4-5.
\textsuperscript{57} In 1976, the naira was equivalent to US$1.5853. The naira has fluctuated from 1976 to the present; in 1980, the naira was equivalent to US$1.8367 and, in 1983, the naira was equivalent to US$1.4189. 36 INT'L FIN. STATISTICS, August, 1983, at 318, 319.
\textsuperscript{58} AFRICAN DEVELOPMENT BANK, 1976 ANNUAL REPORT 31 (1977).
making infrastructure projects, primarily in low-income countries. The first NTF loan, however, was issued to finance the expansion and development of an airport, usually the type of project considered by the ADB. Considering the NTF's relatively small capital stock when compared to that of the ADF and the ADB, it was expected that the NTF would take a minor role as a soft loan partner in the ADB Group.59 The NTF, however, chose to make large loans instead of a large number of loans.

In relation to the number of loans committed, the NTF has funded a higher percentage of multinational projects than the ADB and the ADF.60 Between 1976 and 1979, the NTF committed funds to three multinational projects, contributing a 12.64 percent share of the total cost of the Abidjan-Accra Highway, 29.92 percent share of the Liptako-Gourma Telecommunications project, and 36.46 percent share of the Diama Dam project. By taking such an active role in multinational projects, the NTF has provided a soft loan base for joint financing with the ADB.

The large NTF presence in multinational project financing shows Nigeria's role as a "prime mover" in regional integration. The notion of "prime movers" in a regional community assumes that the necessary investments in interterritorial infrastructure must come from the large political and economic powers of the region. As stated earlier, this perspective is contested by neo-classical economic theorists who view economic disparities between countries as being disintegrative. Nevertheless, Nigeria has disproved this theory in West Africa. Through its contributions to the ECOWAS compensation fund and to the NTF, Nigeria has used its large economic power to become a positive integrative force in West Africa.61

An examination of the types of projects that the NTF has funded shows that it is dedicated to advancing the goals of regional integration in West Africa. For example, the Liptako-Gourma Telecommunications project establishes a communications infrastructure between three relatively underdeveloped West African States: Niger, Mali, and Upper Volta. With communications links established between these three countries, the potential for increased transactional flows in this subregion can be realized. As discussed by the economists Jacob, Teune, and Deutsch,62 a high volume of transactions between countries can have a positive influence on the integration process. Prior to the NTF investment, the communications links between Niger, Mali, and Upper Volta were limited

59 In 1978, the NTF accounted for only 7.5 percent of the ADB Group financing. AFRICAN DEVELOPMENT BANK, 1979 ANNUAL REPORT 20 (1980).
61 Although Nigeria has maintained a firm integrative policy, its government has in at least one instance acted to the contrary. In January 1983, the Nigerian Minister of Internal Affairs announced that all aliens living or working illegally in Nigeria would be required to leave the country within the next two weeks. The expulsion order, which came without notice, marked the beginning of a mass exodus of more than two million aliens, the majority of whom were Ghanaian nationals. The expulsion order was justified by the Ministers of Internal Affairs on the basis that aliens illegally residing in Nigeria were in contravention of the Nigerian Immigration Act of 1963 and the ECOWAS Protocol on the free movement of persons. It was further stated that the order was a legitimate exercise of Nigeria's sovereign rights and was taken in the interest of national security. See Note, The Nigerian Expulsion Order, 21 COLUM. J. TRANSNAT'L L. 641 (1983), quoting A. Ali Baba, Address on Aliens Residing in Nigeria and Registration of ECOWAS, Chad, and Cameroon Citizens 2 (Feb. 14, 1983) (unpublished manuscript).
to exchanges from migratory flows. The NTF has provided another channel through which transactions within the Liptako-Gourma region may be conducted.

Another project funded by the NTF which produces a high level of integration in West Africa through interterritorial links is the Abidjan-Accra Highway. A transport infrastructure is required to facilitate trade linkages between countries in an economic community. This type of infrastructure would include roads, railroads, ports, and airports. At the present time, the existing transport infrastructure in Africa, and particularly in West Africa, is fragmented and in poor condition. The NTF investment in the Abidjan-Accra Highway improves the interregional trade potential between the Ivory Coast and Ghana. The Abidjan-Accra Highway also provides a physical linkage between the peoples of the Ivory Coast and Ghana. The NTF loan to the Abidjan-Accra Highway is another example of how Nigeria is advancing the integration process through increased trade and communications in West Africa.

The contribution of the NTF in advancing regional development can also be seen in the large financial commitment that it makes to each project. The NTF averaged UA2m per project in the first year of operations. Between 1976 and 1979, the NTF increased its average loan amount per project to UA9.47m [US$12.475m], which was higher than the ADB or the ADF averages. To the extent that cofinancing takes place between the NTF and the ADF, the poorer countries will realize the benefits of large loans on concessionary terms. The presence of such a large, soft loan contributor to multinational projects helps to make the ADB's participation in these projects more feasible and more attractive. In short, the NTF's presence in multinational project financing has provided the ADB Group with a soft loan window that has allowed the ADF to take a larger role in funding multinational projects and has allowed the ADB to consider a wider range of multinational projects.

Some of the uncertainties concerning the NTF's operations center around its inability to disburse its funds quickly, as shown in Graph IV. This concern appears to be correctable within the near future. The NTF does not fund a large number of projects, and therefore its staff is closer to the individual projects. A small number of projects will allow the NTF to improve its record of disbursements. The NTF is already showing rapid improvement. Another concern about the status of the NTF is the funding of its operations. Unlike the other entities within the ADB Group, the NTF relies on contributions from one country. Although Nigeria is relatively wealthy and apparently committed to leading the way in regional development, the NTF's source of capital is not as secure as that of the ADB or the ADF. The solvency of the NTF is dependent upon the sustained commitment of the Nigerian government. The continued solvency of the NTF would greatly benefit the ADB Group, which has entered into several jointly financed projects through this soft loan window, particularly in the area of multinational projects. A soft loan window which improves the ADB's activity is essential for the ADB to carry out the mandate that it had difficulty meeting during its early years: financing regional development.

IV. THE ADB'S PERFORMANCE IN PROMOTING REGIONAL DEVELOPMENT IN WEST AFRICA

A. Early Studies on West African Multinational Projects

The constraints on the ADB in financing multinational projects in its first seven years of investment activity have been outlined previously. One of the major constraints was the

absence of regional authorities and other development agencies to join in financing multinational projects. The establishment of several regional support bodies in West Africa helped to overcome this constraint.

During the early years of the ADB's activity in multinational development, its efforts were concentrated on conducting, financing, and providing technical support for studies. Many of the early studies concerned West Africa. The first of these studies involved a joint venture between the ADB and the Mutual Aid and Loan Guarantee Fund of the Entente Council. The study concerned the possibility of increasing economic cooperation between the Entente countries and Ghana. The ADB and the Entente Council held several meetings to discuss the issues and finally contracted the services of the International Monetary Fund to carry out the actual study. In comparison to the present level of financing of multinational projects in West Africa, the 1969 ADB-Entente Council study appears to have been insignificant, but at that time no other aid agencies, with the possible exceptions of the Economic Commission for Africa and the Food and Agricultural Organization, were active in multinational projects or studies.

Before the end of 1969, the ADB had initiated two other studies in West Africa. One of the studies examined the potential for tourism in West Africa with the aim of identifying projects and programs in this area. The other study was a survey of shrimp resources in West Africa. This particular study was described as being “investment oriented” in that one objective was “to identify suitable sites for the setting up of shrimp processing plants in various West African countries.”

B. Establishment of the SIFIDA and the African-Re

More important than the ADB studies in West Africa were its early attempts to develop a network of support institutions in Africa that would work to promote economic development on the national and regional levels. As early as 1968, the ADB was actively examining the potential for developing an African Insurance and Re-Insurance Corporation. The agency, as originally conceived by the ADB, would develop and strengthen African insurance markets by supplementing and reinforcing national initiatives with “multinational action on a regional level particularly in the field of reinsurance.” The ADB hoped to tap potential savings for development finance by promoting the insurance industry in Africa. The agency would initiate “mutual cooperation among African insurers and reinsurers” and would establish a “regional Re-Insurance Corporation for Africa.” The African Re-Insurance Corporation ("African-Re") was established in 1976 with an authorized capital of US$15,000,000, two-thirds of which was available for subscription. The ADB holds ten percent of the capital and has a representative on the nine-member Board of Directors.

Another one of the ADB's early attempts to increase development money for Africa and to advance regional development was the Societe Internationale Financiere pour les Investissements et le Developpement en Afrique ("SIFIDA"). The SIFIDA was proposed in 1969 and began operating in 1970. The SIFIDA, like the African-Re, was designed to secure additional resources and to provide the institutional support that the ADB needed to consider broader operations.

65 Id.
66 Id. at 36.
67 Id.
C. Other Contributions to Regional Development

The ADB has been one of the lead institutions in establishing regional agencies and regionally based unions in West Africa. The ADB has participated in the creation of the Association of African Development Institutions, the CEAO, African-Re, the SIFIDA, the Mano River Union, and the ECOWAS. The ADB's most ambitious venture in forming regional bodies has been its role in the creation of the Mano River Union and the economic unions of the CEAO and the ECOWAS.

The SIFIDA was designed as an institution "to ensure an adequate inflow of private capital and expertise from the capital-exporting countries to Africa." The idea was to establish a "Multinational Finance Company for Development in Africa," comprised of contributors from capital-exporting countries. The original members of the SIFIDA were the ADB, France, Italy, Canada, Japan, and the United Kingdom. In addition to opening a channel of communication between the ADB and potential outside donors, the SIFIDA attracted new capital for African development. Furthermore, the SIFIDA provided technical expertise and was a source of investment that supplemented the lending operations of the ADB.

The creation of these regional bodies by the ADB contributed to regional integration and development in Africa. Following the neo-functionalist perspective on regional integration, the formation of regional institutions that bring together professionals and technicians from the member countries is essential to establishing interregional linkages. The economist Ernst Haas has suggested that these sectorally based regional institutions which bring together professionals and technicians in a specific joint venture will create positive integrative "spillover." The positive outcome of these regional cooperative ventures would create a process that would lead to increased accretions of power to a regional authority.

The ADB has initiated this process by creating these regional institutions. All of these institutions provide interregional linkages between professionals and technicians and produce the kind of "spillover" effects that Haas described as producing positive influences on the integration process and regional development.

The Mano River Union, in addition to creating a customs union between Liberia, Sierra Leone, and Guinea, administers a completed ADB project, the Mano River Bridge. The Mano River Union has aided the integration process since it includes professionals and technicians from the three member countries, and also because the operation of the Mano River Bridge provides another channel for interstate transactional flows and commerce.

The benefits to West African regional development from the CEAO and the ECOWAS have been even greater. The CEAO and the ECOWAS are the only regional entities in West Africa that are committed to economic integration. They function as the region's only economic unions. Although neither the CEAO nor the ECOWAS receive

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71 Id.
72 Id.
73 See HAAS, THE UNITING OF EUROPE: POLITICAL, SOCIAL AND ECONOMIC FORCES 1950-1957 (1958) for a discussion of the theory of "spillover." In short, Haas' theory of "spillover" provides that a gradual move toward federalism, which is produced by interregional links, can be the foundation for a successful integration process.
74 Id.
75 The Entente Council is generally concerned with fostering economic cooperation between the countries, rather than forming an economic union among them.
any ADB project financing, they aid the ADB in its efforts toward regional development by providing the institutional support of economic unions.

The ECOWAS has established separate commissions to coordinate economic relations between member countries. For example, the Industry, Agriculture, and Natural Resources Commission collects feasibility studies and similar reports on proposed industrial projects in the region. This commission also acts as a forum for debating issues between countries with conflicting interests in multinational projects. This commission's involvement with industrial development assists the ADB group in selecting multinational projects.

The ADB began to increase its involvement with multinational projects in 1976. With subscriptions supplemented by outside borrowings, the ADB had increased its paid-in capital amount to US$256.9m by 1976. The ADF and the NTF were also in operation at this time and Arab investors had begun to finance projects in Africa through the BADEA and the Kuwait Fund. The increased presence of the IBRD and the IDA in multinational project financing provided the ADB with needed cofinancing. As a result, the ADB Group emerged as the largest financier of multinational projects in West Africa between 1976 and 1980: the ADB Group US$134.89m; the IBRD and the IDA US$128.5m.

Clearly, there is no other institution that is better equipped, financially and administratively, to assume a larger role in financing multinational projects in West Africa than the IBRD/IDA. Despite the greater capacity of the IBRD/IDA to take on this task, the ADB Group remains the leader in the area of multinational project financing in West Africa.

Graph V provides a summary of the annual funding to multinational projects in West Africa by the major development institutions. By 1978, there was a greater level of cofinancing between the various branches of the ADB Group than there was in any other development institution, including the IBRD/IDA. The ADB Group member with the most activity in this area was the NTF, which provided sufficient soft loan cofinancing in multinational projects to have permitted the ADB Group to take on more projects.

The ADB Group has chosen to finance a diverse range of multinational projects in West Africa. The following is a list of the ADB Group projects, with the Group member and the total funding given:

1. Regie de Chemin de fer Abidjan/Niger ["RAN"] (Ivory Coast, Upper Volta)
   - 1972 — finance procurement of rolling stock — ADB (US$3.619m);
   - 1976 — line of credit to finance 1975-80 RAN investment program — ADB (US$5.5m)
2. Mano River Union (Sierra Leone, Liberia)
   - 1973 — Mano River Bridge — ADB (US$1.568m)
3. Organization pour la Mise en Valeur de Fleuve Senegal ["OMVS"] (Senegal, Mauritania, Mali)

---

78 See the Annual Reports, Project Funding, for the ADB and the World Bank for the period between 1976 and 1980.
79 The RAN is an interstate agency between the Ivory Coast and Upper Volta. The RAN plans the development and coordinates the operation of the railroad line connecting the Ivory Coast and Upper Volta.
80 The OMVS is a regional agency which undertook the Diama Dam project to aid the countries of Senegal, Mauritania, and Mali in developing their hydroelectric power capacity. This increased
1979 — Diama Dam Project — ADB (US$15.807m) — NTF (US$15.807m)

4. Societe des Cimens d'Afrique de l'Ouest ['"CIMAO"] (Ghana, Togo, Ivory Coast)
   1976 — cement plant — ADB (US$8.2m)

5. Liptako-Gourma Regional Integrated Development Authority (Niger, Mali, Upper Volta)
   1978 — telecommunications project — ADB (US$13.0279m) — NTF(US$8.598m)

These infrastructure projects are the types of projects needed to begin to confront the problem of industrial imbalances between the member countries.

The ECOWAS community lacks the interstate infrastructure needed to conduct and expand interstate trade and communication. The special funds of the ECOWAS have been inadequate in effectively dealing with this problem. The projects financed by the ADB Group are positive indications of the ADB Group's commitment to filling the investment gap in infrastructure projects within the ECOWAS community.

Although these infrastructure projects have been successful in promoting regional development, they have not been sufficient to remedy the infrastructure problem. The ADB Group will have to consider additional resources in order to meet this investment need.

First, the ADB Group should increase the scale of cofinancing with outside lenders. Two potential sources for soft loan credits for infrastructure projects are the BADEA and the Kuwait Fund. Graph VI shows that these organizations provide loans at terms comparable to, or lower than, the NTF. With respect to industrial development, the ADB Group should try to increase its cofinancing activity with the IBRD. The costs for the development of new industry usually far exceeds the loan ceiling of the ADB Group. The presence of a large investment institution such as the IBRD would allow the ADB Group to finance projects which it could not finance alone.

Second, the ADB should open its capital stock to non-African countries. The increase in the capital base would allow the ADB to expand its investment operations, raise its loan ceiling, and relax the pressures on the African member countries to meet their paid-in obligations. The presence of foreign subscribers would increase the ADB's borrowing capacity in the international market, and would also allow the ADB to alter its callable to paid-in capital ratio appreciably. As noted earlier, positive results were realized by the ADB when it attempted to float bonds in the Eurobond market after the ADB changed its callable to paid-in capital ratio in 1976.

Third, the ADB should increase its access to the international bond market. The World Bank operates primarily from its financial activities in the European market. The access of the World Bank is assured because of the large number of member countries, the members' credit standing, and the members' financial commitment. The ADB should upgrade its creditworthiness to increase its access to the Eurobond market. Until the ADB opens its capital stock to non-Africans, however, it will have difficulty strengthening its credit standing.

Fourth, the ADB should increase the membership to the ADF. The ADF has been capacity helps provide the infrastructure essential to industrial development in a region that includes two underdeveloped countries, Mauritania and Mali.

81 The CIMAO is a cooperative venture between Ghana, the Ivory Coast, and Togo. The CIMAO cement plant is located in Togo, the least developed of the three countries. The cement plant has been supplemented by major infrastructure development in Togo, such as the construction of ports and roads. The Ivory Coast and Ghana will provide the limestone and the electricity to make
able to tap the financial resources of many of the industrialized nations. The ADF could attempt to increase its resource base by attracting new subscribers. Additional capital in the ADF could be earmarked for infrastructure development which would help close the investment gap in infrastructure development within the ECOWAS community.

CONCLUSION

The success of the ECOWAS treaty and program is dependent upon large investments in multinational infrastructure development and new industry in poorer countries. Without these investments, the ECOWAS community will never realize the ultimate goal of economic union in West Africa. The ADB Group has taken the lead in promoting the ECOWAS program through its multinational investments, but a larger investment institution is needed to finance and cofinance development projects.

In light of the fact that other funding sources such as the IBRD may not be major financiers in multinational development projects in West Africa, the ADB should expand its resource base in order to increase its role in such projects. Under the present conditions, the growth, development, and strength of the ECOWAS community will be directly tied to the performance of the ADB Group and its investments in West Africa.

the plant operational. By locating the cement plant in Togo, the CIMAO community is actively countering the tendency of industry to locate in the growth poles of Abidjan and Accra.
APPENDIX I
TABLE 1
RATIO OF LOAN COMMITMENTS TO ADMINISTRATIVE COSTS BY INSTITUTION

<table>
<thead>
<tr>
<th>Year</th>
<th>(US$m) Commitments</th>
<th>(US$m) Administrative Cost</th>
<th>Administrative Cost Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>24.69</td>
<td>3.485</td>
<td>14.1%</td>
</tr>
<tr>
<td>1972</td>
<td>27.38</td>
<td>3.502</td>
<td>12.79%</td>
</tr>
<tr>
<td>1973</td>
<td>43.13</td>
<td>4.366</td>
<td>10.1%</td>
</tr>
<tr>
<td>IBRD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>2505</td>
<td>66.32</td>
<td>2.6%</td>
</tr>
<tr>
<td>1972</td>
<td>2966</td>
<td>78.567</td>
<td>2.6%</td>
</tr>
<tr>
<td>1973</td>
<td>3408</td>
<td>91.02</td>
<td>2.6%</td>
</tr>
<tr>
<td>CDC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>523.25</td>
<td>6.86</td>
<td>1.3%</td>
</tr>
</tbody>
</table>


TABLE 2
RATIO OF DISBURSEMENTS TO LOANS BY INSTITUTION (1968-1973)

<table>
<thead>
<tr>
<th></th>
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<td></td>
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<tr>
<td>Loans (US$m)</td>
<td>2.98</td>
<td>7.92</td>
<td>11.15</td>
<td>24.69</td>
<td>27.38</td>
<td>43.13</td>
</tr>
<tr>
<td>Disbursements (US$m)</td>
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<td>.76</td>
<td>2.3</td>
<td>6.3</td>
<td>13.46</td>
<td>20.27</td>
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<tr>
<td>Ratio</td>
<td>.1243</td>
<td>.0959</td>
<td>.206</td>
<td>.255</td>
<td>.491</td>
<td>.469</td>
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<tr>
<td>IBRD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans (US$m)</td>
<td>847</td>
<td>1399</td>
<td>1680</td>
<td>1921</td>
<td>1966</td>
<td>2051</td>
</tr>
<tr>
<td>Disbursements (US$m)</td>
<td>772</td>
<td>762</td>
<td>772</td>
<td>915</td>
<td>1182</td>
<td>1180</td>
</tr>
<tr>
<td>Ratio</td>
<td>.911</td>
<td>.545</td>
<td>.459</td>
<td>.476</td>
<td>.601</td>
<td>.575</td>
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<tr>
<td>CDC</td>
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<td></td>
</tr>
<tr>
<td>Loans (US$m)</td>
<td>423.25</td>
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<tr>
<td>Disbursements (US$m)</td>
<td>341.37</td>
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<td></td>
</tr>
<tr>
<td>Ratio</td>
<td>.652</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

SOURCE: Annual Reports of the ADB and the IBRD/IDA for years listed. Report and Accounts of the CDC for years listed. Currency exchange based on exchange rates from the ADB Annual Reports for years listed.

TABLE 3
ADB PAID-IN/CALLABLE CAPITAL AND ARREARS/Paid-In CAPITAL RECORD

<table>
<thead>
<tr>
<th>Year</th>
<th>(A) Paid-In (UAm)</th>
<th>(B) Callable (UAm)</th>
<th>(B/A) Ratio</th>
<th>(D) Arrears</th>
<th>(D/A) % of Paid-In</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>110.2</td>
<td>110.2</td>
<td>1:1</td>
<td>28.845</td>
<td>26.17</td>
</tr>
<tr>
<td>1972</td>
<td>127.2</td>
<td>127.2</td>
<td>1:1</td>
<td>29.493</td>
<td>23.18</td>
</tr>
<tr>
<td>1973</td>
<td></td>
<td></td>
<td></td>
<td>20.496</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>185.58</td>
<td>185.58</td>
<td>1:1</td>
<td>18.729</td>
<td>10.09</td>
</tr>
<tr>
<td>1975</td>
<td>193.93</td>
<td>193.93</td>
<td>1:1</td>
<td>22.9</td>
<td>11.8</td>
</tr>
</tbody>
</table>

### TABLE 4

**ADB Borrowings, Callable Ratio/Paid-In, Record of Arrears**

<table>
<thead>
<tr>
<th>Year</th>
<th>Paid-In (UAm)</th>
<th>Callable (UAm)</th>
<th>(B/A)</th>
<th>Arrears</th>
<th>% of Paid-In</th>
<th>Borrowings (UAm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>185.58</td>
<td>185.58</td>
<td>1:1</td>
<td>18.729</td>
<td>10.09</td>
<td>10.64&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>1975</td>
<td>193.93</td>
<td>193.93</td>
<td>1:1</td>
<td>22.9</td>
<td>11.8</td>
<td>75.33&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>1976</td>
<td>256.9</td>
<td>362.23</td>
<td>1.4:1</td>
<td>23.933</td>
<td>9.3</td>
<td>34.98&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>1977</td>
<td>279.825</td>
<td>430.02</td>
<td>1.53:1</td>
<td>26.444</td>
<td>9.45</td>
<td>150.18&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
<tr>
<td>1978</td>
<td>300.23</td>
<td>490.23</td>
<td>1.63:1</td>
<td>38.092</td>
<td>12.68</td>
<td>164.84</td>
</tr>
<tr>
<td>1979</td>
<td>300.23</td>
<td>900.69</td>
<td>3:1</td>
<td>29.619</td>
<td>9.86</td>
<td>281.71&lt;sup&gt;e&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>a</sup> — borrowings from member central banks.
<sup>b</sup> — principally from syndicate banks (US$ 65m).
<sup>c</sup> — primarily Eurocredits and bilateral contributions.
<sup>d</sup> — first issuance of bonds in foreign market (Kuwait — KD 5m).
<sup>e</sup> — first issuance of bonds to central banks other than from member countries (US $39.5m).

<sup>—</sup> first entrance in Eurobond market (Germany — DM 300m).

### TABLE 5

**Average Size of Loans by the ADB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Amount (UAm)</th>
<th>Average (UAm)</th>
<th>Average (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>25</td>
<td>73.4</td>
<td>2.936</td>
<td>3.54</td>
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<tr>
<td>1975</td>
<td>28</td>
<td>85.9</td>
<td>3.06</td>
<td>3.39</td>
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<tr>
<td>1976</td>
<td>25</td>
<td>80.45</td>
<td>3.218</td>
<td>3.575</td>
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<td>1977</td>
<td>30</td>
<td>126.78</td>
<td>4.226</td>
<td>4.695</td>
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<td>1978</td>
<td>33</td>
<td>157.9</td>
<td>4.78</td>
<td>6.232</td>
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<tr>
<td>1979</td>
<td>35</td>
<td>207.9</td>
<td>5.94</td>
<td>7.824</td>
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</table>


### TABLE 6

**Ratio of Loans to Disbursements**

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</thead>
<tbody>
<tr>
<td>Loans</td>
<td>24.69</td>
<td>27.38</td>
<td>43.13</td>
<td>88.52</td>
<td>103.64</td>
<td>97.05</td>
<td>154.0</td>
<td>205.72</td>
<td>273.95</td>
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<tr>
<td>Disbursements</td>
<td>6.3</td>
<td>13.46</td>
<td>20.27</td>
<td>23.89</td>
<td>48.01</td>
<td>51.39</td>
<td>73.06</td>
<td>92.8</td>
<td>107.65</td>
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<tr>
<td>Ratio</td>
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<td>.4915</td>
<td>.469</td>
<td>.269</td>
<td>.463</td>
<td>.5295</td>
<td>.474</td>
<td>.474</td>
<td>.3929</td>
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</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>1921</td>
<td>1966</td>
<td>2051</td>
<td>3218</td>
<td>4320</td>
<td>4977</td>
<td>5759</td>
<td>6098</td>
<td>6889</td>
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<td>1533</td>
<td>1995</td>
<td>2470</td>
<td>2636</td>
<td>2787</td>
<td>3602</td>
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<tr>
<td>Ratio</td>
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<td>.601</td>
<td>.575</td>
<td>.461</td>
<td>.496</td>
<td>.457</td>
<td>.515</td>
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</tbody>
</table>


### TABLE 7

**ADF — Average Size of Loans**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Amount (US$m)</th>
<th>Average (UAm)</th>
<th>Average (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>17</td>
<td>42.0</td>
<td>2.47</td>
<td>2.74</td>
</tr>
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<td>1975</td>
<td>23</td>
<td>83.68</td>
<td>3.638</td>
<td>4.04</td>
</tr>
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<td>1976</td>
<td>18</td>
<td>71.95</td>
<td>3.9777</td>
<td>4.44</td>
</tr>
<tr>
<td>1977</td>
<td>17</td>
<td>127.51</td>
<td>7.5</td>
<td>8.33</td>
</tr>
<tr>
<td>1978</td>
<td>24</td>
<td>155.1</td>
<td>6.46</td>
<td>8.419</td>
</tr>
<tr>
<td>1979</td>
<td>23</td>
<td>188.2</td>
<td>8.18</td>
<td>10.778</td>
</tr>
</tbody>
</table>

APPENDIX II

GRAPH 1

Volume of Borrowings by Institution

(US $ Millions)

SOURCE: The data for Graphs I-VI are compiled from the annual reports of each institution for the given year.
GRAPH II
Ratio of Administrative Costs to Disbursements by Institution

ADB

ADF

IBRD/IDA

CDC

(Year)
Graph V

Volume of Loans/Credits to Multinational Projects/Programs in West Africa by Institution

(US $ Millions)

1984] AFRICAN DEVELOPMENT

AFRICA DEVELOPMENT

181
GRAPH VI
Average Size of Loans/Credits for Projects in Africa by Institution

(US $ Million)

IBRD
IDA
NTF
ADF
ADB
Kuwait Fund
BADEA

'71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 (Year)