

## ASIAN DEVELOPMENT BANK - A BIG BOON FOR INDIA'S BALANCED GROWTH AND ITS STAND IN SOUTH ASIA

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### Abstract

The growth, development and survival of any country depends on the availability of resources and the rate of their consumption, which should result into creation of competitive infrastructure, bringing more opportunities of employment for increasing the level of per capita income and favorable balance of payment. No country can be said to be absolute independent for the resources to consume besides it has to seek the support of other supplier/country. India is also not the exception to it. Further, for its stand in south Asia, India's growing socio-economic & financial position, and increasing multi-dimensional development in the infrastructure witnesses the support of Asian Development Bank. India is one of ADB's member countries which have experienced vital growth and development. This paper focuses on introduction and operations of ADB, its relationship with India and impact of financial assistance provided from time to time to India among other South Asian member countries. The data used in this paper is secondary in nature for exploring the research problem.

**Keywords:** Asian Development Bank, India, Growth, Development Financial Institutions, South Asia.

### INTRODUCTION

The Asian Development Bank, an international development finance institution, has broad focus on various development issues. Its mission is to reduce the rate of poverty and improve the quality of life of their people in the Asia and Pacific region. Its aim is to improve the lives of the 903 million people in the Asia and Pacific region who struggle to survive on less than US\$1.25 a day. In pursuing its vision, ADB's main instruments comprise loans, technical assistance, grants, advice, and knowledge. It's almost all the major projects, programs, policies, and strategies prioritize these areas.

Headquartered in Manila, and established in 1966, ADB is owned and financed by its 67 member countries, of which 48 are from the Asia Pacific region and 19 are from other parts of the globe. ADB's main partners are governments, the private sector, non-government organizations, development agencies, community-based organizations, and foundations. Under Strategy 2020, a long-term strategic framework adopted in 2008, ADB has been following three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. Although most lending is in the public sector - and to governments - ADB also provides direct assistance to private enterprises of developing countries through equity investments, guarantees, and loans. In addition, its triple-A credit rating helps mobilize funds for development. ADB's principal functions are - lending funds, providing grants, providing technical assistance and advisory services, promoting investments for development purposes, and assisting in coordinating DMCs' development policies and plans.

ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants and technical assistance (TA). In 2012, lending volume was \$11.72 billion (110 projects), with TA at \$150.96 million (237 projects) and grant-financed projects at \$696.94 million (27 projects). In addition, \$8.3 billion was generated indirect value-added co-financing in the form of official loans and grants and

commercial co financing such as B loans, risk transfer arrangements, parallel loans, and co-financing for transactions under ADB's Trade Finance Program. From 1 January 2008 to 31 December 2012, ADB's annual lending volume averaged \$11.78 billion. In addition, investment grants and TA funded by ADB and special funds resources averaged \$778.77 million and \$172.56 million in TA over the same period. As of 31 December 2012, the cumulative totals excluding co-financing were \$191.47 billion in loans for 2,531 projects in 44 countries, \$5.67 billion in 287 grants, and \$3.44 billion in TA grants, including regional TA grants.

## **ADB Operations**

ADB's operations consist of ordinary and special operations. ADB sources out finance for ordinary operations from its ordinary capital resources (OCR) which comprises of paid-in capital from its members, accumulated reserves, and borrowings from the open market. Whereas Special Operations are financed from special funds resources (SFR) which include the Asian Development Fund (ADF) to lend to poorer DMCs on concessional terms or to provide grants to poorer DMCs for projects and programs of high development priority. Lending criteria depend on the type of resource that is likely to be used. A DMC's eligibility for concessional funds (e.g., ADF resources) is determined primarily by the economic circumstances prevailing in the country, as indicated by per capita gross national product (GNP) and debt repayment capacity. Special consideration is given to certain Pacific Island DMCs in determining eligibility for ADF resources. Relending is necessary when the borrower is not the direct beneficiary of the ADB loan. Relending terms to the beneficiaries (such as Government agency, Commercially operated public corporation and Private enterprise etc.) differ from case to case basis.

## **Portfolio of ADB's Loan Products**

The portfolio of its loan product include- project loan, sector loan, program loan, disaster and emergency assistance loans, DFI loan etc. which are provided by way of direct financing, co-financing and retroactive financing. A project loan finances specific projects and has been the most important vehicle for transferring ADB's resources to its DMCs. A sector loan finances a large number of subprojects in a single sector or subsector in a DMC. Various sectors are agriculture, education, energy, finance, health, industry and trade, information and communication technology, public sector management, social protection, transport, water etc. A program loan in the public sector supports sector development programs over the medium term (3–5 years), contributing to faster economic development of the DMC. The Disaster and Emergency Assistance Loans (DEAL) emphasizes rapid approval of short-term and small loans to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies. In a DFI loan, the ADB lends directly or through the borrower to an autonomous financial intermediary who then on-lends the loan proceeds to the final beneficiaries as sub-loans.

## **Private Sector Operations**

ADB's private sector operations provide direct assistance to private enterprises and financial institutions by way of direct financing and/or risk mitigation, in most cases without government guarantee. The support is provided through- Equity investments, Loans, Complementary financing schemes, Guarantees, Technical assistance, Public/Private Infrastructure Advisory Facility, and Trade Finance Facilitation Program.

## ADB & INDIA

India is a founding member of ADB and the fifth largest shareholder among regional members and the fourth largest overall. India is ADB's fourth largest shareholder. Since launching its lending operations in India in 1986, ADB has approved 168 sovereign loans amounting to \$27.2 billion. As of 31 December 2012, the portfolio included 78 ongoing sovereign loans amounting to \$11.2 billion. ADB's sovereign lending assistance to India increased from an annual average of about \$1.16 billion in 2000–2006 to \$1.85 billion in 2007–2012. India has been ADB's largest borrower for the last 3 years (2010–2012).

More than 75% of this assistance covers the transport, energy, and urban sectors. In recent years, ADB has also been providing support for improving water resource management, promoting financial inclusion, and facilitating public–private partnerships in infrastructure. Today, ADB operations cover 22 states of India. India has been among the top three borrowers of ADB's Ordinary Capital Resources (OCR) loans since 2007.

Rapid economic growth in India over the past 2 decades has lifted millions out of poverty. However, income disparities and regional imbalances remain. To supplement the government's efforts in reducing interstate disparities and promoting regionally balanced growth, ADB has expanded its operations in low income and special category states. An important aspect of ADB's engagement in these states has been its support to strengthening the capacities of executing agencies in planning and implementation of infrastructure projects, and exposing them to new technologies and international and regional best practices.

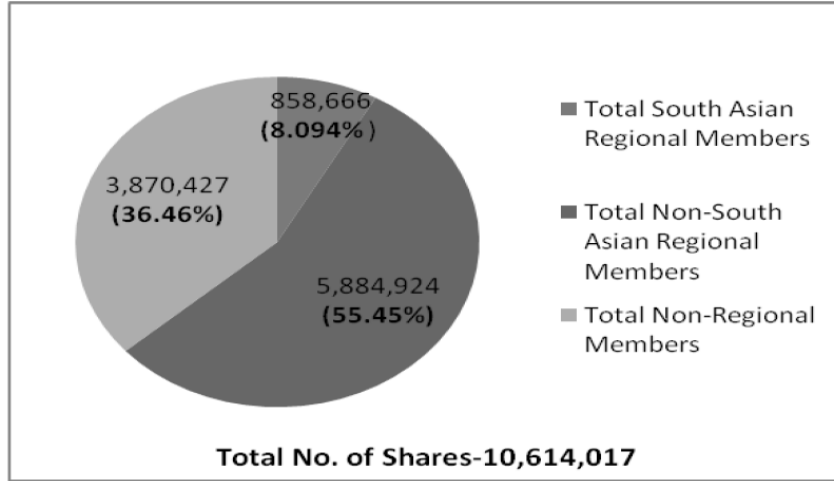
**Figure 1: ADB-OCR: Statement of Subscriptions to Capital Stock & Voting Power**

S. N o	MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
		Number of Shares	Percent of total	Par Value Of Shares			Number of Votes	Percent of total
				Total	Callable	Paid-in		
1	Bangladesh	108,384	1.02	1,665,775	1,582,474	83,301	147,988	1.12
2	Bhutan	660	0.01	10,144	9,514	630	40,264	0.30
3	India	672,030	6.33	10,328,563	9,812,035	516,528	711,634	5.36
4	The Maldives	426	0.004	6,547	6,225	323	40,030	0.30
5	Nepal	15,606	0.15	239,852	227,848	12,003	55,210	0.42
6	Sri Lanka	61,560	0.58	946,128	898,806	47,322	101,164	0.76
A	Total South Asian Regional Members	858,666	8.094	13,197,009	12,536,902	660,107	1,096,290	8.26
B	Total Non-South Asian Regional Members	5,884,924	55.45	90,446,578	85,907,036	4,539,542	7,548,292	56.90
C	Total regional (A+B)	6,743,590	63.54	103,643,58 7	98,443,938	5,199,649	8,644,582	65.16
D	Total Non Regional	3,870,427	36.46	59,485,360	56,506,573	2,978,787	4,622,903	34.84
E	TOTAL (C+D)	10,614,01 7	100.00	163,128,94 7	154,950,51 1	8,178,436	13,267,485	100.00

Note: as on December 31st, 2012 Expressed in 000's of USD

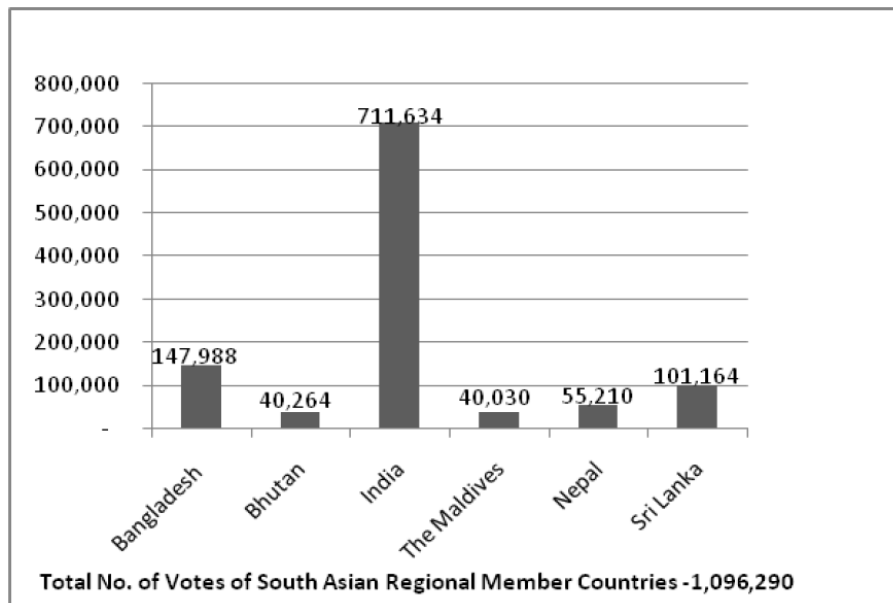
Source: ADB-Annual Financial Statements, 2012 OCR-7, 8 Page no.54, 55

**Figure 2: ADB-OCR: Subscriptions of Members to Capital Stock**



Source: ADB-Annual Financial Statements, 2012 OCR-7, 8 Page no.54, 55

**Figure 3: Voting Power of SARMC in OCR of ADB**



Source: ADB-Annual Financial Statements, 2012 OCR-7, 8 Page no.54, 55

**KEY FINDING BASED ON Figure 1, 2, & 3**

Analysis of fig.1 shows that the total contribution of South Asia in the subscribed capital of ADB is 8.094% whereas; the share of India is 6.33%. Thus India stands ahead of the other South Asian member nations. The remaining 2.734% subscription is represented by the rest 5 south Asian members. With this subscription India enjoys 5.36% voting right in ADB. Study also shows that Bangladesh, SriLanka and Nepal have II, III and IV ranking with 1.12%, 0.76% and 0.42% of voting rights respectively, whereas Bhutan and Maldives can be gauged at V and VI ranking with 0.3% and 0.3% respectively.

Fig. 2 depicts the ADB-OCR Subscriptions of members to capital stock and accordingly

63.54 % of the total subscribed capital belongs to total regional members. This portion can further be classified as South Asian Regional Members and Non-South Asian Regional Members. Out of this, a majority of 55.45% of the total subscribed capital is represented by a list of 42 Non-South Asian Regional Members. 36.46% of the subscribed capital has been contributed by a list of 19 Non Regional members.

Voting Power (in terms of absolute nos. of votes) of each South Asian Regional Member Country in ADB-OCR has been shown in Fig.3. The voting power of India can also be observed as highest among other members of this category.

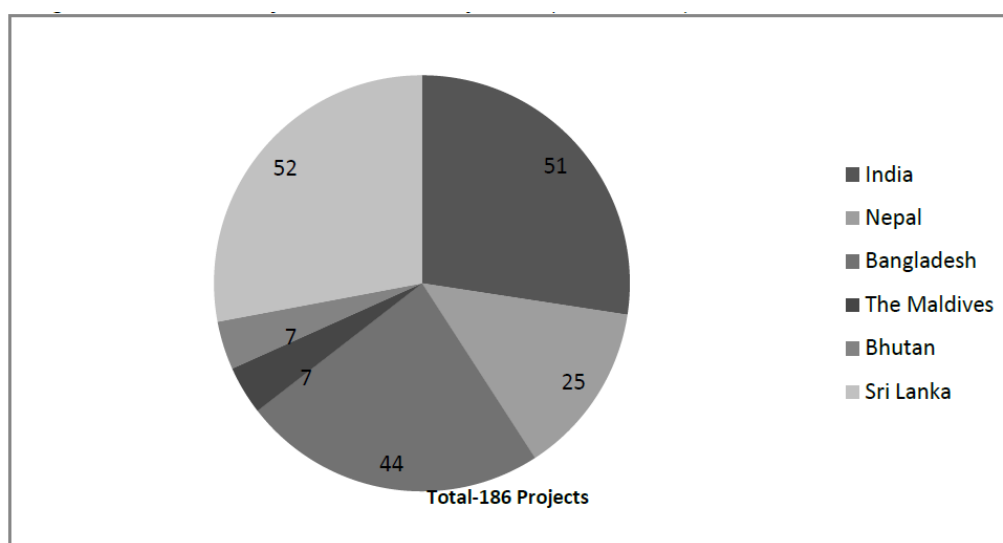
**Figure 4: Projects Financed by ADB in South Asia (2004-2012)**

S.N.	Country	Year of Membership	No. of Projects Financed (2004- 2012)	Approved Financing Total Project Cost Estimates (\$)
1	India	1966	51	12,929,010,000
2	Nepal	1966	25	1,541,089,000
3	Bangladesh	1973	44	5,286,757,000
4	The Maldives	1978	7	103,770,000
5	Bhutan	1982	7	69,692,000
6	Sri Lanka	1986	52	3,112,587,100
Total			186	23,042,905,100

Source: Special purpose data collected from ADB’s members URL and condensed

Fig. 4 and 5 shows that India leads to other members in terms of counts (51 projects) and worth of financing of total project cost estimates for development activities approved by ADB between 2004 to 2012. Sri Lanka became member of ADB in 1986 i.e. later than Bangladesh which became member in 1973, however if not in terms of worth of total project cost financing then certainly it leads to Bangladesh with total of 52 projects financed by ADB. Thus, on the basis of above fig. no. 4 and fig. no. 5, it clear that ranking for development financing on the basis of Percentage of Approved Financing Total Project Cost Estimates can be assigned to these SARMC beneficiaries as I, II, III, IV ,V and VI to India, Bangladesh, SriLanka, Nepal, Maldives and Bhutan respectively.

**Figure 5: Nos. of Projects Financed by ADB (2004-2012) for South Asian Members**

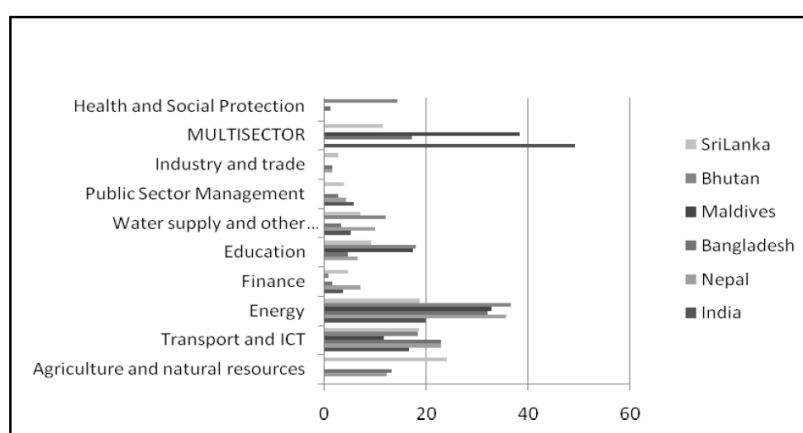


**Figure 6: South Asia: Percentage of Approved Financing Total Project Cost Estimates**

S.No.	Sector	India	Nepal	Bangladesh	Maldives	Bhutan	SriLanka
1	Agriculture and natural resources	0.00	12.23	13.07	0.00	0.00	24.07
2	Transport and ICT	16.64	22.93	22.78	11.56	18.37	18.44
3	Energy	19.73	35.58	32.09	32.83	36.59	18.64
4	Finance	3.65	6.97	1.51	0.00	0.76	4.66
5	Education	0.00	6.54	4.65	17.35	17.94	9.07
6	Water supply and othermunicipal infrastructure and services	5.12	9.97	3.21	0.00	12.00	7.10
7	Public Sector Management	5.80	4.22	2.74	0.00	0.00	3.79
8	Industry and trade	0.00	1.55	1.58	0.00	0.00	2.76
9	Multi-sector	49.06	0.00	17.23	38.26	0.00	11.48
10	Health and Social Protection	0.00	0.00	1.13	0.00	14.35	0.00
	Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Special purpose data collected from ADB's members URL and condensed

**Figure 7: South Asia: Percentage of Approved Financing Total Project Cost Estimates**



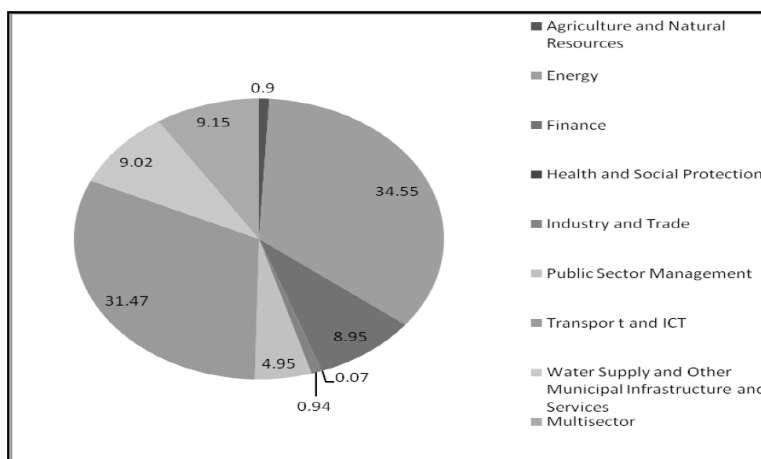
Source : based on data of Fig.6

**Figure 8: India: Cumulative ADB Lending by Sector (as of 31 December 2012)**

Sector	No. of Loans	Amount (\$ million)	%
Agriculture and Natural Resources	6	262.96	0.9
Energy	69	10,119.29	34.55
Finance	19	2,620.00	8.95
Health and Social Protection	1	20.00	0.07
Industry and Trade	5	275.90	0.94
Public Sector Management	9	1,450.00	4.95
Transport and ICT	44	9,215.85	31.47
Water Supply and Other unicipal Infrastructure and Services	28	2,642.66	9.02
Total	196	29,285.67	100.00
Total Disbursements		\$18,371.6 million	

Source: ADB- India fact sheet, April2013

**Figure-9 India: Cumulative % ADB Lending by Sector**



Source: Based on Fig.8

## **SOUTH ASIAN MEMBER COUNTRIES: MAJOR FOCUS ON DEVELOPMENT FINANCING AREAS (2004-2012)**

### **India**

ADB operations in India began in 1986. Assistance has focused mainly on transport, energy, and urban development. In recent years, ADB has also been providing support for improving water resource management, promoting financial inclusion, and facilitating public-private partnerships in infrastructure. ADB operations cover 22 Indian states, and the country has been one of the top three borrowers of ADB's ordinary capital resources loans since 2007. ADB is guided by the principles of the 3Rs (relevance, responsiveness, and results) as it designs and implements its program in India. ADB remains committed to supporting the government's efforts toward making India's growth inclusive and environmentally sustainable. Study shows that during the period of 2004-12 the major thrust of India for financing the development projects to the significant extent has been multi-sector with 49.06% of total borrowings. Multi-sector project areas of rural and national developmental importance include – Gujarat Earthquake Rehabilitation and reconstruction program, Private sector Infrastructure facility at state level projects, Tsunami Emergency Assistance and India Infrastructure project financing facility etc. For the development projects of agriculture and natural resources, education, industry and trade, health and social protection etc. dependency of India on ADB's debt has not been found in the study. The growth and development of the areas such as - transport and ICT, energy, finance, water supply and other municipal infrastructure and services and public sector management witnesses significant assistance provided by ADB.

### **Nepal**

The environment for governance and project implementation, including public procurement and financial management, continues to be challenging as Nepal undergoes political transition. Development operations are impeded by difficult topography, poor infrastructure, and weak institutional capacity. Frequent power cuts, strikes, and fuel shortages have also emerged as bottlenecks to Nepal's economic growth. A more conducive environment needs to be created for private sector investments in infrastructure and industries, and for participation of diverse social groups, including the most vulnerable.

So far as external financing is concerned, Nepal is largely dependent for financing its energy

projects from ADB's loan (35.58%) while areas such as transport and ICT (22.93%), agriculture and natural resources (12.23%) have also seen significant contribution for their growth. Combining to all other project areas such as finance, education, water supply and other municipal infrastructure and services, public sector management, industry and trade etc. have been financed up to 29.25%. Areas like multi-sector, health and social protection have been kept outside purview of debt from ADB.

## **Bangladesh**

Bangladesh has made impressive socioeconomic gains with a steady rise in its gross domestic product, a decrease in overall rates of poverty, boost in social development, and steady movement toward achievement of the Millennium Development Goals. ADB has been a key partner in the country's struggle for a better future since 1973 by contributing to critical economic and governance reforms.

Spurred by its accomplishments so far, Bangladesh aims to become a middle-income country by the 50th anniversary of independence in 2021. As of 31 December 2009, ADB's cumulative lending amounted to about \$10.8 billion for 202 loans, and its technical assistance grants amounted to \$195.2 million for 348 projects. The country is also one of the largest recipients of concessional Asian Development Fund resources. ADB has been the second-largest source of financing, and one of the lead financiers in energy, water supply and sanitation, agriculture and natural resources, education, and transport sectors of Bangladesh. The proportion of financing projects by 32.09% in the energy sector shows that Bangladesh has primarily focused more on this area while Transport and ICT, Multi-sector, Agriculture and natural resources have contribution of debt from ADB with 22.78%, 17.23% and 13.07% respectively.

To the extent of total 14.82% Bangladesh has also been dependent on ADB for financing its project areas such as Finance, Education, Water supply and other municipal infrastructure and services, Public Sector Management, Industry and trade, Health and Social Protection etc.

## **Maldives**

In the more than 30 years since joining ADB, the Maldives has made substantial progress toward expanding and diversifying its economy. ADB's assistance to the country focused on economic growth, social equity, environmental protection, private sector development, good governance, and recovery and reconstruction in the wake of the 2004 tsunami.

Like other developing island countries, the Maldives experiences specific problems like narrow economic base, overdependence on tourism, lack of employment opportunities, and uncertain political environment. The weak macroeconomic situation has resulted in large economic imbalances, both in the domestic economy and in terms of the balance of payments. Over the years, the public debt has accumulated to an unsustainable level, while the country's accession to middle-income status will see a reduction in concessional aid going forward.

Multi-sector and Energy projects are the key areas of financing from ADB with 38.26% and 32.83% of the total projects finance respectively. Maldives is also one of the two major beneficiaries of ADB members among South Asian countries which have externally borrowed largely for development of education sector. Transport and ICT project also witnesses financing from ADB.

## **Bhutan**

Although Bhutan has maintained impressive economic growth and made commendable progress toward the Millennium Development Goals, it is still challenged by a narrow



economic base, low employment elasticity in the hydropower sector, inadequate involvement of the private sector in economic development, administrative limitations on the expansion of the private sector, and a rapidly growing number of educated but unemployed youth. Bhutan's sober, careful approach to development has yielded a steady rise in its gross domestic product, a decrease in overall rates of poverty, and steady movement toward achievement of the Millennium Development Goals. The Asian Development Bank (ADB) has been a partner in the country's transition and development since 1982, and today ADB is Bhutan's largest multilateral development partner. ADB has provided 25 loans and 6 grants totaling \$303.5 million since it began working in Bhutan. Currently, all of ADB's assistance comes in the form of grants. ADB has also provided \$42.4 million for 105 technical assistance projects. Energy, Transport and ICT, Education, Health and Social Protection, Water supply and other municipal infrastructure and services and Finance are only the areas which have experienced growth and development with loan from ADB by 36.59%, 18.37%, 17.94%, 14.35%, 12% and 0.76% respectively. Agriculture and natural resources, Public Sector Management, Industry and Trade and Multi-sector like important areas are significantly untouched from borrowed funds of ADB.

## **Sri Lanka**

The partnership between Sri Lanka and ADB started in 1986. Since then, ADB has helped the country to improve its transport, education, power, and water supply and sanitation systems. Sustained and uninterrupted ADB engagement in these key sectors helped Sri Lanka to enhance service delivery to the country's population.

In education, policy changes have been achieved and innovations introduced. The country's road network has been upgraded and extended. In the water sector, two million people were provided access to safe water, institutional capacity was developed, and reforms were introduced. The country's rural electrification grid and transmission and distribution systems have also been expanded.

From 1986 to 2011, the Asian Development Bank (ADB) approved 157 loans amounting to \$5.3 billion and 245 technical assistance projects amounting to \$115 million for Sri Lanka. Data analysis shows that Sri Lanka has utilized its borrowing capacity from ADB very efficiently in a balanced manner. However majorly focused beneficiary areas of Sri Lanka can be seen as Agriculture and natural resources. An equal weightage has also been given to Transport and ICT and Energy. Health and social protection is only the area which is internally financed.

## **CONCLUSION**

Study shows that the multidimensional growth and development of India would not have been possible among South Asian member countries in the absence of such a big contribution of ADB. However India's development needs are far larger than what all external agencies combined can provide. The need for long-term funding to finance development projects, especially in the lagging states, becomes even more critical in this period of global financial and economic slowdown. Therefore, a timely resolution is vital if ADB is to continue supporting India's development priorities effectively as well as other member countries. ADB will continue to support India as emphasized in the 12th Five-Year Plan and reflected in ADB's country partnership strategy (CPS), 2013–2017 for India, currently being formulated.

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